FINANCING URBAN DEVELOPMENT IN INDIA

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EDITED BY

K.S.R.N. SARMA

CENTRE FOR URBAN STUDIES
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE, RING ROAD, NEW DELHI-110 002

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Foreword

Urban development financing, unlike agricultural or industrial development financing, has not received the attention it undoubtedly deserves. For instance, while assessment of the financial needs of agricultural and industrial development is systematically done and efforts are made to build the institutional infrastructure to cater to them, urban development financing cannot be stated to have received a similar treatment. This neglect has given rise to a number of difficult problems.

It is well known that urbanisation is a concomitant phenomenon of economic development. At the beginning of the century, India's urban population was hardly 10 per cent of the total. Today it has gone up to over 25. Urban population today is around 16 crores and it is estimated to be around 32 crores by the year 2001.

Though the development needs in respect of various urban infrastructure facilities are growing manifold, the resource base of urban authorities, municipal corporations and the councils mostly remained static and weak. As a consequence, there has been a steady deterioration in the standards of civic amenities—the provision of potable water supply, sewerage, street lighting or maintenance of roads. The decline in the quality of urban life is manifest most in the sprawling slums and squatter settlements even in small towns.

Octroi, the relatively more elastic source of local revenue, is sought to be abolished on the plea that it restricts easy flow of goods traffic on roads. Yields from the property tax

could not be very responsive owing to the restrictions imposed by factors, such as rent control legislation, deficiencies in the working of the assessment machinery, etc. The Finance Commissions at the national level could not specify any financial transfers to the urban authorities direct as the latter are part of the state administration. Similarly, the Plan allocations under Gadgil's formula are allotted to the states' sector en bloc and any earmarking of funds specifically for the urban programmes has not, therefore, been found practicable. Institutional finance, such as from LIC and HUDCO, for urban development so far has been too meagre to make any dent and the statutes do not allow much freedom to the urban authorities to borrow funds from the money market either. The situation thus is not encouraging. Early reforms are warranted to tone up the urban development financing.

It is against this background that the Centre for Urban Studies, IIPA during February 4-5, 1985 organised a seminar on Financing Urban Development in India, with a view to promoting a national level debate on the various issues involved. The present volume contains the seminar proceedings and 16 papers on various sub-themes that were specially written by the experts for the seminar.

My thanks are due to Dr. K.S.R.N. Sarma and Shri G. Jha who coordinated the seminar. Dr. Sarma also edited the papers and prepared the resume of the seminar to bring out the present volume.

The Institute is grateful to the Ministry of Works and Housing, Government of India, for the financial grant for organising the seminar and also for bringing out this publication. We are also thankful to Hon'ble Abdul Ghafoor, Union Minister for Works and Housing, who inaugurated the seminar, to Dr. Raja J. Chelliah, Member, Planning Commission, who gave address in the Valedictory Session, to the Chairman and Rapporteurs of the Technical Sessions, to the contributors of the theme papers and the participants. It

is hoped that the present volume would be found useful in promoting a better understanding of the issues in financing urban development in India and evolving strategies for future action.

(P.R. DUBHASHI)
Director
INDIAN INSTITUTE OF
PUBLIC ADMINISTRATION

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Introduction

With the acceleration in the rate of urbanisation in the country in the recent years, the requirements for augmenting various urban infrastructure and other facilities have also increased manifold. To secure an orderly urban development, a major initiative was taken in the form of preparation of city level master plans with a long-term perspective. To date, over 650 city/town master plans have been prepared. But a good number of them are still non-starters and others ran into many difficulties in implementation. An analysis in retrospect indicates that the failures are mostly on account of inadequate flow of funds which in, turn, is caused due to inherent flaws in the financial frameworks that existed for implementation of the plans. Finance, as a crucial parameter in the development efforts, needs no elucidation. But strangely, the issues—methodological and operational—involved in the formulation of sound financial plans as adjuncts of the physical development plans have not attracted enough attention they undoubtedly deserve. Now that the Seventh Five-Year Plan is on the anvil, a national debate on these issues is felt imperative for determining the critical areas for reform and throw light on the various options open thereof. Accordingly, the Centre for Urban Studies, IIPA organised a national level seminar on "Financing Urban Development in India" during February 4-5, 1985.

The three major themes identified for the seminar are: (*i*) Dovetailing the urban development plans and the financial requirements thereof in the national planning framework to ensure adequate flow of funds; (*ii*) Inter- and intra-agency coordination for avoiding duplication of efforts and to ensure efficient take off of the operational financing from the capital expenditure phase; and (*iii*) Strengthening the financial base

of the local bodies and promoting in the process the local autonomy and accountability in the urban development efforts.

The seminar had participation from the Central Government, Ministry of Works and Housing, Planning Commission, State departments of Urban Development and Municipal Administration, major municipal corporations, city development authorities and academics specialising in the area. In all 15 papers* on various sub-themes were presented and discussed.

Dr. P.R. Dubhashi, Director, IIPA welcomed the Chief Guest, Hon'ble Abdul Ghafoor, Union Minister for Works and Housing and the participants. The Union Minister inaugurated the seminar. Dr. Raja J. Chelliah, Member, Planning Commission, addressed the Valedictory Session. The seminar had three technical sessions on the themes indicated above. These were chaired respectively by Shri Ramesh Chandra, Secretary, Ministry of Works and Housing; Shri Virendra Prakash, Chief Secretary, Delhi Administration; and Shri S.K. Sharma, Chairman and Managing Director, HUDCO. Shri C.S. Chandrasekhara, Prof. G. Thimmaiah, Prof. S.K. Sharma, Shri K.N. Rao, Dr. Shyam Nath and Shri M.K. Narain acted as rapporteurs. Dr. K.S.R.N. Sarma and Shri G. Jha were the seminar coordinators.

*The paper by Shri P.A. Varghese included in the volume was received later.

Contents

SECTION I

Inaugural Address

Hon'ble Abdul Gafoor

Director, Indian Institute of Public Administration, Participants, Invitees and Friends: I am very happy to participate in this national seminar on "Financing Urban Development in India" which has been organised by the Centre for Urban Studies of the Indian Institute of Public Administration.

Tackling of the problem of increasing urbanisation is one of the most difficult challenges for the planners and administrators in India. The growth of urban population during the last decade has been phenomenal. It has been estimated that in the developing countries the percentage of the population living in urban areas will rise from 28 per cent in 1975 to 44 per cent by 2000 AD. In absolute numbers this signifies a growth from 830 million to 2,150 million. In India the proportion of urban population to the total population has increased to 24 per cent in 1981 as compared to 20 per cent according to 1971 census. However, in absolute numbers the total urban population is sizable. By the year 1991 it is expected that about 236 million people will be living in the urban areas and by the beginning of the next century this may very well cross 315 million mark. The population of slum and squatter settlements in cities is increasing at twice the rate of cities themselves and four times faster than the rate of population growth.

The unplanned and unregulated urbanisation is leading to the growth of large slums and concentration of squatters. This is resulting in environmental degradation, depletion of natural resources, breaking down of services and accentuation of the problem of urban renewal and environmental pollution. The intensity and dimensions of the problem require a proper policy framework and well-formulated plan of action.

The Approach document of the Seventh Five Year Plan which has been accepted by the National Development Council recognizes the need for a national plan of urban development and housing which would, *inter alia*, fulfil the plan objectives of raising the quality of life and meet the most important felt need, especially of the poorer sections of the population. It has also been recognised that the development of infrastructure, primarily consisting of electrification, water supply, local roads, sewerage and garbage collection, etc., is absolutely necessary. The objective of locating infrastructures in towns and new centres of growth would be partly to slow down the population increase in metropolitan cities and large cities, to prevent the growth of additional slums there and, indeed to make life worthy of living in smaller places.

As most of you are aware, there are various socio-economic factors leading to migration to urban areas and cosmopolitan towns of which uneven distribution of employment opportunities is the primary cause. The policies concerned with location of industry require to be coordinated with the provision of funding of urban services and associated communication and transport facilities. The three important aspects of regulated urban growth are infrastructural build-up, purposeful industrialisation to increase employment opportunities and housing development.

While placing due emphasis on development of countermagnates for the development of intermediate settlements to enable dispersal of population and curbing of migration into metropolitan cities, the importance of planned and regulated growth of cosmopolitan cities and bigger urban areas cannot be minimised. The planning of growth of cities is an essential and integral part of the process of planning for the development of the country as a whole. In regard to the slum squatter settlements, a two-pronged strategy has been so far followed that is of provision of basic amenities in the slum squatter settlements and their re-location wherever feasible. The schemes which are under implementation are those relating to the development of sites and services, improvement of slums and development of small and medium towns. During the Seventh Five Year Plan emphasis is being placed on development of infrastructure judiciously and

equitably among the 12 metropolitan cities of million plus population, more than 200 cities of population between 1 lakh and 1 million and numerous towns with population between 1 lakh and 5000, where haphzard development has been taking place. It is also proposed to place emphasis on small rural centres where urban growth is showing itself.

The financing of programmes for urban development is a very suitable theme for the seminar. The problem of ensuring adequate finances for diverse requirements of urban growth is a crying need in the country today. Adequate flow of funds as a share of the development funds from the Central and state governments has to be ensured for the purpose. The ensuring of adequate outlays for various facets of urban growth, namely, the growth of cities including development of infrastructure consisting of electrification, water supply, sanitation, sewerage garbage, collection, roads, transport and communication facilities is necessary. It is essential to earmark the specific activity and outlays for each sector of urban growth and to establish proper linkages for ensuring success of the implementation of a programme. In the total development plan, the core needs of urban growth have to be met and flow of earmarked funds has to be ensured. All efforts are being made to provide for adequate outlays for urban growth in the Seventh Five Year Plan.

However, it has to be appreciated that the responsibility of the state governments and of the local bodies and other authorities engaged in the various aspects of the urban development in this regard has to be recognised, acknowledged and fulfilled to the maximum. The subject of urban growth is a state subject and major part of the outlays and activities has to form part of State Plan programmes. Government of India can act as a catalytic agent extending its support to the basic core programmes in this sector. The municipal and local corporate bodies and development authorities are to be recognised as the effective instruments for ensuring regulated and balanced urban growth. It needs no reiteration that their need for finances has to be attended to on a priority basis. The task of financing urban development is such as can only be adequately dealt with by mustering of resources from all the possible sources. The government budgetary support

even with maximum possible augmentation will not be adequate. The central financing institutions and banking structure should be involved more actively in the process of lending funds for financing urban growth. The process of dialogue with these institutions has been initiated and I expect that these institutions will be showing greater initiative and increase their participation in financing urban growth. In the context of the need for ensuring smooth flow and adequate finances, the question of setting up of a central financing organisation for extending assistance for projects and schemes for urban growth is also under examination.

India, as some other developing countries, is the beneficiary of international aid for urban development. The task of ensuring growth of cities and urban areas on proper lines in the developing countries is a challenging one and this will come with a gradual system of international cooperation and understanding being built up in regard to financing of certain aspects of urban development through international agencies as also through bilateral arrangements. There is a need for a much larger flow of finances for these programmes so as to quicken the pace of implementation of these programmes. However, this is not to deny the need for developing of international capabilities and mopping up of international resources for the programme. The system of working of the aid mechanism has also to be properly evaluated so that best advantage could be taken of the financial assistance flowing through the international agencies and bilateral arrangements.

The local bodies, corporations and development authorities could make substantial contribution by way of raising internal resources. I am of the view that there is sufficient scope for mopping up of internal resources by these institutions. Stepping up of the realisation of outstanding dues by various local bodies and authorities which are growing on account of taxes as well as on account of dues for services rendered, that is, water supply, sewerage, electricity, etc., would place considerable resources at the disposal of authorities engaged in executing projects of urban growth. Similarly, there is scope for rationalising the structure of taxes, etc., dues and duties at present being levied and which

are leviable by these institutions. Methods have to be devised by these institutions to introduce financial efficiency and cost-effectiveness in their working, in the systems of services and supplies which they extend to the dwellers of the cities. It has been a widely prevalent impression that there is considerable scope for improving financial discipline and toning up the management of the accounts and finances of these institutions.

One of the most important aspects of all developmental programmes including that of urban development is the participation of people and the beneficiaries in the formulation and implementation of the programmes of development. The experience of development projects so far brings it out very clearly that unless we take the people with us, involve them deeply in the process of planning and development of urban growth, the projects could at best be only partially successful. It is for all of you to devise ways and means to bring about this much needed improvement in the process of urban development.

With these few words, I inaugurate the seminar and hope that its deliberations will bring forth valuable suggestions for planners and administrators of urban development.

Resume of the Seminar

SESSION I

PLAN INTEGRATION

In his introductory remarks, the Chairman Shri Ramesh Chandra suggested two additional issues for discussion, *viz.*, increased participation of the general financial institutions in the urban development efforts and the establishment of a specialist Urban Finance Institution (UFI).

Dr. K.S.R.N. Sarma, presenting the theme paper of the seminar (co-author G. Jha) observed that a lasting solution to the twin problems of getting increased flow of funds for urban development and the optimum utilisation of the funds mobilised would largely lie in the effective dovetailing of urban development plans in the national planning framework. Towards this end, improvements may have to be effected in the norms and procedures of planning at the local level. The multiplicity of the authorities involved in plan implementation at the local level often resulted in the duplication and wastage of efforts. For minimising it, the need for instituting some formal financial coordination mechanism to synchronise the activities of the agencies involved could hardly be emphasized. As regards municipal finances, it is generally recognised that reform efforts should mainly be directed to strengthen their revenue base. But certain recent developments such as the Supreme Court's decision on Rent Control legislation, and the lobbying for the octroi abolition, seem to have the quite opposite impact. The measures suggested for augmenting the municipal finances include, direct financial transfers from the Central Government, rationalisation of state financial transfers through the establishment of State Municipal Finance Commissions, etc.

The second paper presented was by Shri R. Sheshadri.* On the basis of a comparative examination of the governing statutes and the revenue mobilisations by the municipal bodies in different states, it was concluded that there is not much scope for the municipal bodies to raise internal revenue surpluses for undertaking development works. They need considerable financial help from outside. In this connection Shri Sheshadri suggested that commercial banks could formulate 'Lead Bank' schemes for urban development in each district. The bank credit which would be made available under the said 'Lead Bank' scheme might encourage the municipal bodies to formulate projects on objective basis, so that enough safeguards were thought of well in advance for loan repayment. The government at the Centre could provide the seed capital and also help the establishment of a credit guarantee fund. The funds for this purpose could be found under the Central Scheme of Integrated Urban Development. A major advantage of the 'Lead Bank' proposal would be the reduction in procedural delays as the applicant municipal body has to deal with the local branch of the commercial bank concerned.

Shri S.K. Sharma presenting his paper drew the attention of the seminar to some of the special problems faced in the implementation of the scheme of Integrated Development of Small and Medium Towns in Madhya Pradesh. As no regional planning studies were undertaken by the State Town and Country Planning Directorate, (because of its pre-occupation with the major cities) the selection of 16 towns under the scheme was done largely on *ad hoc* basis and for political considerations. Furthermore, since the scale of funding was meagre, the scheme turned out to be mainly a land development scheme. Even there, the proposals were not based on adequate site surveys. Matching contributions from state government did not come forth as no provision for the same was made in the state budget. Responsibility for the different segments of the schemes was dispersed among various state departments. The field agencies that have to carry out the tasks were found ill-equipped both in technical competence and resourceswise.

*In the absence of the author, the paper was read by Shri G. Jha.

As against the above experience, the recently launched scheme of integrated urban development with World Bank assistance is much superior in conception and better poised for implementation. The scheme spread over two large urban conglomerations covering in ten towns. It has two very novel features. The first is the emphasis on regional development and the second is consideration of different sectoral projects such as area development, slum upgradation, water supply, solid wastes disposal, municipal maintenance, etc., as a single package for appraisal and funding. This approach, and the large quantums of investments proposed are expected to make the desired impact unlike the scheme of IDMST. Shri Sharma opined that the urban growth cannot be considered in isolation but has to be related to the general economic growth in the area. Viewed in this light, the process of identifying urban development needs and planning the schemes in that regard has to be initiated much in advance before taking the decisions about the location of major industries or other economic activities.

The fourth paper to be presented in the session was the one by Naseer M. Munjee.* It was pointed out that various institutions serving the rural development programmes have now been subsumed under the NABARD, the industrial sector's financial needs are looked after by IDBI, IFCI, ICCI, that of housing sector by HUDCO. The former Governor of Reserve Bank of India argued for the establishment of infrastructural bank to deal with the financial needs of power and transport sectors. Similarly, a strong case exists for the establishment of a specialist facility to cater to the needs of financing urban development. The idea is not new as the municipal development banks have been in operation for over decades in most of the developed countries. Shri Munjee argued, that the urban fiscal gap is fast increasing and that urban development can no longer be left as a matter to be handled entirely by the local bodies and the state governments. The Central Government has to show greater interest and institute national level effort to ease the situation. The proposed financial institution has to be one of the constituents

*In the absence of Shri Naseer M. Munjee, the paper was read by Shri Deepak Parekh.

of the national level efforts. Its *raison d'etre* is not simply one of a financial intermediary but is much more. It has to play the role of a path breaker to chart out new courses for solving the emerging problems. Its initial share capital could come from the RBI and other development banks, but as the operations pick up, the state governments and the municipalities should be made to subscribe to the revolving fund. The institution should be governed by independent board of directors and managed by the professionals so that objectivity and efficiency in extending the project finances are ensured.

After the presentation of the papers discussion on them followed. Shri R.S. Mathur agreed with the view that when major locational decisions are made their urbanisation implications be taken care of through appropriate measures. He opined that the present institutional structure of elected municipal governments has many a handicap to efficiently carry out the different development functions. Therefore, reforms in the institutional framework have to be initiated. He observed that though urban land is an important source for raising funds for urban development, such a policy has gone against achieving certain desirable objectives and also led to the land speculation. He argued against abolition of octroi as no viable alternative source has yet been suggested. He opined that the distinction between plan and non-plan expenditure in urban development is puzzy. Finally he emphasized the need for more attention on R & D efforts for finding appropriate and low cost solutions to the urban development.

Shri P.P. Shrivastava maintained that advocating larger share of investments for urban development may not be a correct strategy to pursue as the plan size being fixed, it may require reduction of allocations for some other development sector. A better course would be to pursue and adopt low cost technologies like pour flush latrines in place of costly conventional sewerage. Shri Shrivastava also argued for bringing down the planning norms to be within the affordable limits. He expressed the view that wastage, corruption and laxity in revenue collection are high with democratically elected urban governments and suggested that some effective solutions for the same are thought of. The suppression of

municipal bodies generally comes into operation when there is serious financial mismanagement and administrators are appointed to cut down infructuous expenditures, tone up revenue collections and to bring back the financial balance. He referred in this context, the recent experiences under the Delhi Municipal Corporation. He opined that elected representatives tend to overspend and hesitate to tap the revenue potential because there is no arrangement, as in the case of central and state ministers, by which they can be made fully accountable for their actions. Shri Shrivastava suggested the introduction of training programmes to the municipal councillors to help them have a better appreciation of the legislative provisions, constraints operating on municipal finances, etc.

Shri R.S. Pednekar also referred to the problem of municipal bodies having to incur huge expenditure on maintenance of infrastructural facilities as a sequel to the location of major activities by the Central and state governments. He informed that presently the Bombay Municipal Corporation is incurring huge expenditure on public health and primary education services with almost no financial assistance from the state government.

Shri C.S. Chandrasekhara explained that urbanisation helps the absorption of rural labour made surplus by developments in agriculture. As such, the urban sector investments should receive as much attention, say, as that in the agriculture in the overall development programming. All urban development investments are not strictly investments in the sense of fetching direct financial returns. Many, though essential, are in the nature of expenditures with only indirect benefits. Maintenance of accounting information as per the above classifications would be essential for taking many planning decisions about the sources of funding to be tapped; for the apportioning of the financial responsibility among different levels of governments; and for determining the client groups who are to be subsidized, etc. Referring to the suggestion for lowering the planning standards, Shri Chandrasekhara opposed it. His argument was that with the economic development, the people's paying capacity and service expectations would also be increasing, so it would be unwise to lower the

planning standards just because of the present low income position of the prospective clients. This has particularly to be so in the case of housing. In this context Shri Chandrasekhara referred to the experience of housing in Hong Kong. He said that sub-standard public housing in the name of cost savings, might ultimately result in heavy maintenance expenditures for the municipality concerned with no prospects of revenues by way of property tax, etc., in return. Shri Chandrasekhara also drew the attention of the seminar to the fact that in urban development, a large chunk of investments in housing, in construction of markets, etc., comes from the private sector. He wanted effective mechanism to regulate them and ensure that private real estate speculators do not reap huge profits at the expense of public sector infrastructure investments.

Dr. V.D. Lall supported the idea of creating Urban Financial Institution (UFI) which he considered relevant and necessary. He suggested that consortium financing may be encouraged in which UFI joins hands with other development banks for financing urban and related developments. This incidentally might help to take proper care of the nexus between the industrial location and urban development. He cautioned that UFI should not depend on government budgetary allocations or on inter-institutional transfers for its capital. The required deposits have to be mobilised from households and from private corporate sector and there have to be fiscal incentives to make such deposits attractive.

Shri S.T. Veera Raghavan suggested the establishment of two separate financial institutions at the national level, one for the urban development and another for the housing. He maintained that the responsibility for the development of urban infrastructural facilities is primarily that of the government at the local, state and central level. Urban land as source of raising the funds should therefore be allowed to be exploited only by the public agencies. The Central Government has a major role to play in shaping the urban development. The functions of the proposed finance institution should therefore, be such as to supplement the government efforts.

Dr. G. Thimmaiah stated that there is ample evidence to

prove that agriculture and allied activities have still great potential to provide employment opportunities and one of the recent Planning Commission's approach papers has admitted this. Therefore, it is not correct to assume that urban development is needed to absorb the labour made surplus by the agriculture. Many other factors contribute to the immigration to the urban areas. In the urban areas, of late, there has been a steep rise in the employment in the tertiary sector indirectly causing the problems of inflation, black money, etc. This has to be curtailed and steps be taken to direct the employments to more productive sectors. Dr. Thimmaiah also did not agree with the claim made by an earlier discussant that during the periods of supersession of the elected bodies, the management of municipal finances would be efficient. His study covering about two hundred urban local bodies in the State of Karnataka did not show any significant variation in the financial and service efficiencies during the periods of elected bodies' rule and those during the Administrator's rule. Municipal supersession on the grounds of budgetary shortfalls is not justified because the position is not different at the state governments level either. He, therefore, suggested for codification of local government powers and function and provision of constitutional protection against arbitrary treatment by the state governments. Finally he drew the attention of the seminar about the need to distinguish between urban finance and municipal finance.

Shri Govind Mohan Jha opined that political interference and the duplication of efforts by different field agencies should be avoided. He suggested proper evaluation of urban development projects before investments are made.

Shri M.P. Bidlan expressed the view that the Administrators are in no way more effective than the elected functionaries in the delivery of urban services and in revenue recoveries. He narrated his own experience about the implementation of a scheme at minimum cost with the help of people's active participation.

Shri H.U. Bijlani expressed the view that regional planning though a welcome step does not always recognises the existing administrative boundaries and may pose problems in implementation. He maintained that since available kitty of house-

hold savings, etc., is limited, the multiplication of finance institutions may not serve much purpose in mobilising funds. He, therefore, wanted the existing institutions be suitably strengthened to take up the envisaged tasks. He opined that HUDCO could concentrate on the development of urban infrastructure, leaving the housing development part to be tackled by the private sector. He felt that Shri Chandrasekhara's reference to the Hong Kong's experience was misplaced and opined that Hong Kong and Singapore models are not appropriate for India.

The Chairman, Shri Ramesh Chandra, while summing up the proceedings observed that though the green revolution, as pointed out by Dr. Thimmaiah, helped the generation of new rural employments, it is the urban sector that could absorb substantially the rural surplus labour. While agreeing with Thimmaiah that wastage and inefficiency may not be peculiar to the elected councils, he opined that he must find out ways and means to reduce them. People's participation in the development effort is by itself a laudable objective and all efforts should be directed to strengthen its institutional framework.

The Seventh Plan has explicitly taken into account the role of private sector in urban development.

Referring to the norms, he expressed the view that they should also take into account the environmental requirements. They should make urban areas clean. He pointed out in this context how in the name of intermediate technology, the western countries are dumping their obsolete technology in India. This should be prevented, he observed.

Shri Ramesh Chandra suggested that we must examine how best the financial needs of urban governments could be built into the Finance Commission's scheme of devolutions. Once the non-plan needs are taken care of by the Finance Commission, the development needs should be worked after by the Planning Commission. It is in this context, he observed that we should examine the case for UFI.

Referring to a suggestion that the Central Government should have greater participation in urban development and if necessary should take over urban development, the Chairman observed that it is not

ble. He agreed that besides mobilisation of deposits from the household saving kitty for urban development, efforts are also to be made for the mobilisations from the outside countries.

Shri Ramesh Chandra agreed with the view that municipalities should be given more elastic sources of revenue. Octroi is sought to be abolished, but he pointed out, no viable alternative source has been suggested. Referring to the point that the use of urban land for financing urban development has led to rise in urban land prices, he opined that even so, it helped to mop up the surplus money which is going to the private sector. Finally he suggested that Municipal Finance Commissions should be created at the states level.

SESSION II

FINANCIAL COORDINATION

In his introductory remarks, the Chairman Shri Virendra Prakash highlighted the role of financial coordination in urban development effort. He brought out the problems of coordination in Delhi, where there is a multiplicity of agencies. In other countries of Asia also, problems similar to those of Delhi exist, but generally there is one apex body to coordinate the matters. He cited the example of Tokyo, where in spite of the multiplicity of agencies, there are institutional arrangements that cut across the departmental procedures and priorities. He favoured a similar type of arrangement in Delhi also. An alternative is to bring together all the development agencies under a single umbrella, but that would call for a very high level of administrative technology which cannot be said to exist in India at present. Most of the coordination difficulties in Delhi are found to arise on account of the non existence of a single agency at the top which can take the final decision. It was originally thought that the DDA, besides preparing the Master Plan, would also serve as the nodal agency for monitoring the plan implementation. But over the years it diffused its focus and directed its energies mainly on housing and allied activities. Shri Virendra Prakash opined that the suggestion made in the IIPA study

for the creation of a separate Ministry for Delhi may not find favour with the local politicians, as they would rather prefer full statehood with a legislative assembly, etc. Anyway, with the setting up of the National Capital Region Board, the situation has undergone considerable change. The solutions for establishing an apex body may, therefore, have to be examined *de novo*. He urged the seminar to give serious thought to the most appropriate administrative set-up for Delhi, so that the Coordination problems are minimised.

Dr. K.S.R.N. Sarma, while presenting his co-authored paper, stated that an examination of the implementation of the Master Plan of Delhi during 1961-81 revealed many shortcomings. Funds did not flow in the required measure for the execution of the envisaged projects and more than that, developments could not be sectorally balanced. Myriad public agencies operating in Delhi, pursued their respective developmental activities in isolation from one another. To prevent the recurrence of the such shortfalls it is necessary to have a detailed financial framework formulated as an adjunct of the physical development plan and should be made the basis for guiding and coordinating the investments by the various participating agencies. Two major recommendations made in this connection are: (1) Appraisal of all major development projects and on that basis, arrive at the delineation of financial responsibilities among the participating agencies; (2) Setting up of a separate Ministry of Delhi at the Centre to guide and supervise the work of the development agencies. Towards strengthening the revenue base of the municipal bodies, the suggestions made in the study include reforms in rent control legislation, adoption of *ad valorem* terminal tax rates; water and sewerage benefit taxes to finance capital augmentation in that sector; and making periodic revision in electricity and water supply charges mandatory. In the case of DDA, a major restructuring of its budget is recommended to bring it in tune with the functions carried out.

Shri J.C. Gambir while presenting his paper explained that for a balanced development of Delhi, decentralisation of economic activities and concomitant dispersal of population in its metro-region, referred to as the National Capital Region, is essential. The primary means to achieve such

dispersal is a policy of selected disincentives to employment generation in Delhi and its ring towns and major incentives in that regard to the other towns of the NCR to help them act as counter magnets. The disincentives for employment generation in Delhi comprise ban on establishment of new government offices, shifting of offices of some of the public sector undertakings, ban on location of major industries, etc. The other means suggested for bringing about the dispersal of economic activities are bringing about uniformity in the local and state tax structures and in the electricity tariffs, development of transport and telecommunications so that NCR could serve as a common system and rapid development of social infrastructure in the other towns. To finance these, investments of fairly high order would be required and Shri Gambir opined that land could be effectively used to finance a major share of those developments.

Shri G. Jha stated that his paper makes an attempt to examine the extent to which the revolving method as a technique of mobilising the development funds is relevant to achieve the urban plan objectives. In Delhi's case the two major plan objectives are: (1) to make available a large portion of developed land for construction of houses by the low income category of population; (2) to stabilise the land price operations. Starting with a seed capital of Rs. 12.31 crores in 1961, the Revolving Fund has steadily grown and reached the level of Rs. 206.75 crores by 1981. But if one were to examine the distribution of land among different income categories, it would be seen that nearly 47 per cent of the land has gone to the top 15 per cent of the population (higher income groups) and 21 per cent each to the low and middle income groups. Similarly on the prices front also the objective could not be realised. The land prices in Delhi steeply increased during the last two decades. Thus Revolving Fund did not appear to have helped the major objectives of the Master Plan of Delhi. Shri Jha was of the view that since the Revolving Fund has a built-in bias towards the development of lands for the rich and for the remunerative uses, its replication in other urban areas could not be recommended.

Shri C.S. Chandrasekhara, who took over as the Chairman

after the Chief Secretary, left to attend some other pressing engagement, called for discussions. He observed that efficiency of financial planning in the ultimate analysis has to be judged on the basis of its role in coordinating the implementation of the envisaged development programmes.

Prof. A. Datta provided a clarification on an observation of Shri Jha, about the technique of Revolving Fund having certain features analogous to the equity considerations in taxation. In the case of latter there is no *quid pro quo* element as in the case of former. As such the underlying principles in the above two methods of raising finances are entirely different.

Shri R.S. Pednekar expressed doubts about the efficacy of incentives indicated in Shri Gambir's paper in getting the industries shifted out of the metro-core areas. He cited the experience of Bombay where in spite of number of incentives and other measures, it was found difficult to shift the industries to locations outside the core urban area. Shri Gambir admitted that in Delhi also the efforts so far have not met much success. He, however, hoped that particularly after the Bhopal tragedy, there has been better appreciation of the need to shift and locate the hazardous industries away from the thickly populated areas.

Dr. Shyamnath wanted detailed studies be undertaken to throw more light on how the variations in the state tax structures affected the balanced development of the different regions. He pleaded for greater regional coordination not only in the matters of raising the revenues, but more in matters of controlling the public expenditures. He felt that a revolving method of financing urban development to be better method than the land taxation as the price differentials in the case of former are paid willingly by the high income land bidders.

Shri Abdul Ali felt that Shri Gambir's claim about using the land as a resource for development might be relevant only in the Delhi situation where there are large segments of high income residents. It has been the experience in most of the towns in Orissa, where the high income group plots offered by the concerned city or town development agencies could not be sold as there were no bidders for them. He

suggested that the Central Government should extend 100 per cent grants to meet the costs of the preparation of the Regional development plans, as it did in the case of preparation of city level Master plans.

Dr. G. Thimmaiah pleaded for a multiple land pricing policy as is in vogue in the state of Karnataka. Under this policy, the land in different sectors is priced differently and this in some way ensured the equity aspect in raising funds. In case more seed capital is made available, the revolving fund method could be made more efficient and helpful in achieving speeded land developments.

Prof. S.K. Sharma observed that coordination is not the major problem in urban development alone. It is the difficult problem in every development activity. Studies carried out by the World Bank and other international agencies have clearly established a positive correlation between the number of agencies and lack of coordination. Therefore the best way to ensure coordination is to try and see that less number of agencies are involved. Prof. Sharma suggested that before a development agency is set up its coordination implications are given a detailed thought and consideration.

Shri K.N. Rao expressed the view that most of the financial coordination problems arise because of the absence of norms and the standardised procedures for settling the claims and counterclaims of the different executing agencies. He wanted the technocrats to undertake detailed studies in respect of different types of urban projects for evolving and codifying the standardised formats, so that the financial responsibilities of each of the participating agency is clearly known in advance and arrangements are accordingly arrived at.

Shri Chandrasekhara, while summing up the discussions felt that the financial coordination will be more effective if there is some benefit accruing to each of the participating agencies. He favoured a "carrot and stick" approach to resolve the coordination problems. He felt that it is necessary to have some type of monitoring and evaluation machinery in each urban centre and it should also be the final arbitrator of the inter-agency claims. As regards the shifting of the industries, he agreed that there are very genuine difficulties,

but it is relatively easy to prevent the future locations of industries in the city core areas. Even in the case of existing ones, there should be a ban on any kind of expansion, and in case an industry applies for expansion, it should be compelled to go to the outside location. He thought that financial planning is essential for proper capital budgeting. He pointed out that the Revolving Fund method of land development in Delhi was conceived not on any equity considerations, but to prevent the private developers and speculators to exploit the situation. He wanted a Land Authority on the lines of Water Authority of England to be set up for ensuring proper development and disposal of land. He lamented that the regional development plans prepared so far, do not have any thrust for implementation. Before going ahead with any regional development plan there should be proper survey of development demands of the communities living in different parts and action programmes are accordingly evolved.

SESSION III

FINANCES OF THE LOCAL BODIES

The first paper presented in the Third Session was the one by Dr. G. Thimmaiah. He referred to the growing tendency both in the developed and in the developing countries towards centralisation of income sources and functions of the local bodies. The reason advanced in respect of the first-mentioned is the inefficient exploitation of the assigned revenue powers and the second mentioned is attributed largely to the technological innovations. Against this general background, Dr. Thimmaiah listed five courses of action for improving the finances of the municipal bodies. The first is to initiate measures to help the municipal bodies to exploit their revenue sources better. An essential requisite for this is the lessening of state controls in the matters of municipal financial management. The second is for the states to enlarge their share of grants to the municipal bodies. But the prospects in this regard are not very bright as the states themselves are heavily dependent on the central assistance. The third is to persuade the National Finance Commission to

take up for consideration the financial needs of the municipal bodies alongwith that of the states concerned and make the awards accordingly. The fourth is the creation of national-level urban finance corporation. But it is highly doubtful whether it would be able to mobilise required level of deposits and extend funds at low costs. The fifth is for the central and the state governments to agree to share with the municipal bodies, the revenues from some elastic taxes. Dr. Thimmaiah recommended the last and his suggestion is that 5 per cent of the central excise and 5 per cent of the state sales tax proceeds be earmarked for financing the municipal development programmes.

The second paper presented was the one by Prof. A. Datta. He observed that the municipal fiscal participation in the development efforts in the Calcutta metropolitan areas has not been upto the desired extent and it is largely due to the investment policies pursued by the CMDA. The latter's emphasis on investments in metro-core, has affected the development of infrastructural facilities in the peripheral areas where the poorer sections population mostly live and which have witnessed very fast growths. Among the recent attempts to bring improvement in the municipal finances a major one is the introduction of Revised Grants Systems (RGS) to the municipalities with incentives to the revenue efforts and safeguards against overburdening the weak municipal bodies with heavy development expenditure commitments. Though the intentions are appreciable, Prof. Datta questioned the correctness of the policy to deprive the financially weak municipal bodies, the development assistance for the augmentation of their service facilities and thus their revenue mobilisation potential. The second improvement is the moderation of CMDA's project appraisal norms with due consideration to the needs of the urban poor. The third improvement is the efforts initiated for the segregation of development tasks as metropolitan and city level ones and to actively involve the municipality of the area concerned in planning and execution of the latter. A major stumbling block here again is the revenue effort linked development assistance which as already stated, deprives the weak municipal bodies the assistance they need most. In view of the limitations of

the present grants systems, Prof. Datta advocates a shift over to a system based on tax sharing which in his view, is better suited to achieve the desired objectives both on the revenue and development expenditure fronts.

State financial transfers was also the subject dealt by Shri D.D. Malhotra. He maintained that the best criterion for judging the state transfers is to examine their adequacy in helping the municipal bodies in performing their twin roles in urban development, *viz.*, augmentation of their service facilities and the institutional one of the local self-government. Two broad forms of state financial transfers are tax sharing and the grants-in-aid. A comparative examination of the position obtaining in different states indicates that only the revenues from two major state taxes, *viz.*, motor vehicles tax and entertainment tax are being shared. The amounts, however, are not substantial and in fact, the sharing in the case of former mentioned tax is compensatory in nature and pegged down to very low levels. As regards grants-in-aid, formal arrangement for objective disbursal of general grants-in-aid exists only in a few states—Gujarat, Madhya Pradesh and Kerala. Of late, the states are observed to be extending more of specific grants, which according to Shri Malhotra is a welcome trend as it would help the state governments to channelise the development expenditures to some of the socially very desirable activities.

Dr. Shyamnath while presenting his paper observed that the property tax constitutes the mainstay of municipal finance in a large number of states. The recent judgements of the Supreme Court on the rent control legislations have put a serious constraint on the revenue potential of this tax. If sizable revenue growths are to be achieved, there is not much of an option but to change the basis of the tax. The service associated property taxes, *viz.*, water tax, scavenging tax, fire tax have to be replaced by the service charges. Even in respect of general component of property tax, the basis of taxation in the case of special category of properties such as commercial places, offices, etc., has to be either the floor area, or the capital value. Besides, there have to be periodic upward revisions of the assessed values of the properties and this should be made statutorily mandatory.

Shri S.T. Veera Raghavan presenting his paper, expressed the view that the future strategies for financing urban development have to increasingly rely on the institutional finance. This would be particularly so in respect of water supply and sewerage projects. For execution of projects, large amounts on long term basis at low rates of interest would be required and the general financial institutions such as LIC, GIC may not be able to undertake the task. Therefore, there is a great need for the establishment of a specialist urban finance institution with the network of operations spread all over the country. A reform to be undertaken simultaneously is the gradual transfer of water supply and sewerage functions from the municipal bodies to the state water supply corporations/boards patterned on the State Electricity Boards. In support of the latter suggestion, Shri Veera Raghavan cited the achievements under the National Plan for Basic Sanitation—referred as PLANASA, in Brazil. The salient features of the Brazilian system are: (1) State Water Supply and Sanitation Corporation looks after both the development and operation and maintenance of the service facilities; (2) The state governments earmark 2 to 5 per cent of their general revenues to be passed on to the above corporations to meet fifty per cent of their development expenditure requirements; (3) The rest fifty per cent of the development expenditure requirement is met with loans extended by the National Housing Bank (NHB), a central specialist financial institution; (4) The NHB charges different rates of interest according to the development status of the state of the client corporation. Shri Raghavan recommended a similar system of financial arrangements for water supply development in the country.

Shri R.S. Pednekar highlighted the financial difficulties experienced by the Bombay Municipal Corporation (BMC) in the execution of its World Bank aided water supply project. A major stipulation for availing the aid is that the BMC would raised 40 per cent of the project costs from the internal resources. In actual execution the project costs steeply increased on account of the delays in getting the financial transfers, rise in the prices of steel and cement, etc., and ultimately the BMC has to shoulder nearly 60 to 70 per cent of the project

costs. As the internal mobilisations could be effected only through the surpluses in the revenue budget, the aid stipulation caused considerable strain on the general functioning of the Corporation. Shri Pednekar, therefore, argued, that if the Bombay's Water Supply facilities are to be augmented in pace with the growing population, it is imperative that the state government should come forward with larger financial participation in the future augmentation projects.

Dr. V.D. Lall stated that a major share of contributions to the housing finance in the country (nearly 77 per cent) are found to come from the non-formal sector, particularly from the individual house builder's 'extended family'. The formal sector comprising of State Housing Boards, City Development Authorities, cooperatives, financial institutions, etc., could raise only a minor share (23 per cent) of the required finances. Besides, there are not much of inter-linkages between the formal housing sector and the general capital market. Dr. Lall is of the view that the success of any future strategy for augmenting the housing finance would largely depend on the extent of mobilisations from the household savings. For accomplishing this, it is suggested that a specialised housing finance institution be set up with a network of regional and field offices to mobilise household savings and to effect personal loans to the individual house builders. In order to help the institution to spread the risks involved in the operations, some form of refinancing insurance has to be ensured. Further, fiscal incentives such as under Section 80 of the Income Tax Act, etc., may also have to be introduced to encourage the individuals and the institutions to invest in the bonds, deposits that the proposed institution might be floating from time to time.

Shri P.V. Venkata Krishnan while presenting his paper (co-author Amitabh Kundu) observed that the Metropolitan public transport all over the world is not a paying proposition financially. But it contributes in a significant way for the development of other urban sectors. Therefore the financial losses on the transport front have to be covered from the gains from the other sectors. In the Bombay Metropolitan Region, the weak transport system in the east-west corridor is often regarded as a major factor responsible for

very slow sub-urbanisation in that direction in contrast to high rate of sub-urbanisation noticed in the north-south corridors. The differences in the development of the areas served, in turn, is found to be affecting the financial performances of the three public transport agencies, *viz.*, BEST, BMTC, and MSRTC operating in the Bombay Metropolitan area. BEST's losses on its transport operations are being met from the subsidies from its electricity operations. Similarly the BMTC's losses are being covered with the transfers from its parent company CIDCO. According to Shri Venkata Krishnan a more lasting solution to the operational losses lies in evolving a differential fare structure according to the economic affordability of the different client groups. One of the methods to achieve that is the introduction of differential service facilities.

After the presentation of the above eight papers, the discussions followed.

Shri P.A. Vargheese wanted a constitutional recognition to the local authorities with clear enunciation of their functions and revenue sources. This is necessary as the local authorities are gradually being divested of their functions and powers. He strongly opposed the suggestion for the establishment of special purpose agencies, as its logical extension might ultimately annihilate the institution of local self-government. Instead, he argued for the reform efforts be directed to strengthen the self government features, so that citizens could voice their needs and obtain better services.

Prof. Datta supported Shri Vargheese on the need for constitutional recognition to the local bodies. Even the restoration of local tax powers abrogated under the Government of India Act, 1935, would help in a long way in giving an indirect recognition to the local government institutions. Turning to the suggestion made by Dr. Thimmaiah about the transfer of 5 per cent of central excise to the municipal governments, he thought that as the proceeds from that tax are already being shared with the states, the latter might strongly oppose the idea. The Planning Commission's Task Force Group on Urban Finance, therefore, suggested that a share of a new tax to be added to the divisible pool, *viz.*, Central Corporate Income Tax be earmarked for the urban local

bodies, on the condition that the state governments concerned also would add their share and pass them on to the urban local authorities. For facilitating this, there have to be state level Municipal Finance Commissions appointed at periodic intervals.

Shri J.A. Kanga, did not agree with the view that the taking away of certain functions from the municipal fold would weaken the local governments. Though the recent technological advancements might be dictating some such transfers, there would still be a number of functions which only the civic bodies can deliver. The civic bodies are financially weak mainly because of the elected representatives' reluctance to effect periodic hikes in the tax rates and exploit their full revenue potential. This often is the reason given by the state governments, (which are also elected bodies but at the higher level) for the supersession of the municipal councils.

Prof. S.K. Sharma appreciated the efforts that have gone in assembling a large number of quality papers for the seminar. He observed that the strategies adopted for strengthening the finances of the local bodies are based mainly on two planks, *viz.*, taking certain functions away from the purview of the local bodies and making them increasingly dependent on state devolutions. The question of local autonomy seems to have been completely side tracked. Prof. Sharma cautioned that the attempts to keep out the local leadership from performing its due role in the development activities might lead to many undesirable consequences. This should be evident from the happenings in the state of Punjab in the recent past. Prof. Sharma maintained that the creation of a number of special purpose agencies at the state level has considerably weakened the local government institutions. As these agencies operate in isolation from the elected bodies, they could not be expected to be very responsive to the actual needs of the clients. They tend to direct the services more towards the high income groups rather to the sections whose needs are more urgent. Referring to the lack of faith in the local government, Prof. Sharma observed that the cause of rural development suffered quite a deal because the Panchayat Raj institutions are not adequately strengthened to participate in the development investments. There could not be any

effective people's participation in the development without properly elected representatives at the helm. Corruption is not a feature peculiar to any one level of government or category of functionaries. Prof. Sharma said that the thinking about the supersession of local bodies would help to nourish them back to financial health, is antithetical to the building of sound democratic institutions.

Shri C.S. Chandrasekhara observed that urban growth and development activities are essentially local and metropolitan in character. As such, they vary considerably from place to place and have peculiar demands of their own. These demands neither can be standardised nor can be centralised. There is no denying the fact, that the managerial capabilities at the local bodies' level are deficient to handle these demands efficiently. But there is no guarantee that a centralised service agency at the state level would be able to handle them better. The recent studies, such as that on Rural Electrification Corporation, have clearly brought out that the managerial capabilities at the level of state agencies is no way superior. Moreover, the state level agencies could neither be responsive nor responsible to the people they are expected to serve. But in case the centralised state agencies are set up to help and build the capabilities of the local bodies, they should be welcome. The findings of the recent studies of NIUA have clearly indicated that the taking away certain functions from the local bodies and entrusting them to the state level agencies have not brought any significant improvements. Therefore, Shri Chandrasekhara strongly pleaded for steps that help to build the managerial and financial capabilities at the local bodies' level. In the context of the latter he commended the scheme of Lead Banks, suggested in Shri Seshadri's paper. Referring to the problems faced by the National Finance Commissions in making earmarked allocations for urban development, Shri Chandrasekhara argued for an early implementation of the RURC suggestion for the constitution of the state level municipal finance commissions. The latter, could formulate the objective criteria for the devolution to be effected to the local bodies and thus facilitate considerably the tasks of the National Finance Commission. Shri Chandrasekhara also supported the suggestion of fiscal incen-

tives for encouraging house building activities in urban areas.

Dr. Shyamnath favoured the establishment of the centralised service agencies if they were to bring the economies of scale. But even then, the primary responsibility for the provision of essential civic services should vest with the local body of the area concerned. As regards the tax sharing Dr. Shyamnath is of the view that the total tax incidence in the country, by the central, state and local governments should be considered as a single package. He suggested a common approach by all the parties involved, both in the matters of tax mobilisation as well as in distribution of the proceeds.

Dr. Thimmaiah argued that though local autonomy and people's participation in development effort are very laudable objectives, one should not be oblivious to the advantages that accrue from the technological innovations. Therefore, a proper balance has to be maintained between the two. In case the considerations of technology and provision of services at much cheaper costs dictate the establishment of the centralised service agency, it may not be easily opposed. These agencies could be made responsive to the people's needs by having the elected functionaries on their governing bodies. Dr. Thimmaiah agreed with the suggestion for according constitutional recognition to the functions and powers of the local bodies for ensuring local autonomy and people's participation in the development efforts. But the people's participation should be a responsible one and they should agree to pay for the developments demanded. Dr. Thimmaiah suggested that the Central Government should include the urban service development needs as one of the special needs under the second category, while framing the terms of reference for the next Finance Commission. He also wanted arrangements similar to those in vogue in Australia, where the State Grant Commissions would have a fairly good indication of the devolutions forthcoming from the Federal Government and on that basis they could take decisions about the additional efforts to be made at the state level, and the amounts that are to be finally distributed among the various municipal bodies. Referring to the suggestion for earmarking ten per cent of the central Corporate Income tax for urban develop-

ment, Dr. Thimmaiah doubted whether the Central Government would ever agree to the inclusion of a new tax in the divisible people. Instead it may be easier for it to agree to give a higher percentage share in respect of a tax that is already included in the pool. Hence his suggestion for having five per cent of the central excise duties to be passed on to the states specifically for meeting their urban development needs.

Chairman Shri S.K. Sharma while summing up the proceedings of the session, observed that the municipal finances are in very bad shape and some urgent steps are needed to tone them up. Financial gaps not only resulted in the poor maintenance of facilities, but also lower service standards. At times they seem to force the municipal bodies to resort to shortcut methods such as putting up markets on road bums in violation of the master plans to raise additional resources. Local bodies constitute an important third tier in the Public Administration in the country, therefore, reforms that may be initiated in this connection should not minimise their status and autonomy. It is generally agreed that the local aspirations and needs would best be served only through local leadership. The Chairman said that the consensus of view at the seminar was for the constitutional recognition of local bodies' powers and functions and for requiring the National Financial Commissions to make awards specifically for meeting their needs. As regards the tax sharing, Shri Sharma preferred assignment of an elastic tax to the urban bodies instead of doing out a share, requiring the local leadership to modulate that tax to balance their budget. Pointing out the differences in the views expressed in the matter of establishing centralised service agencies, Shri Sharma opined that the new technological advancements at times, might require centralised handling of services. In that connection he cited the example of electricity supply which has to be taken away from the local level first to the state level and now to the national level as the new technologies of power generation required the setting up of national grids. Under a similar type of technical compulsions a centralised handling might be required for water supply and sanitation. In that event, there may not be much option but to set up

the state level boards. But the question is how to ensure popular representation in their governance. Shri Sharma noted that the water supply and sanitation has, of late, been causing considerable financial and administrative problems to the urban local bodies. Different solutions are being attempted in different states, but there are a number of issues on which detailed deliberations are needed. These include—whether the Water Boards created at the state level should confine only to capacity augmentation activity or should have responsibility for operation and maintenance as well? In case it is felt that the water supply cannot be made a self paying proposition and needs state subsidy, then, should that subsidy be passed on to the boards or direct to the local bodies who are to operate the service? How best are the areawise needs, *i.e.*, both that of the urban and the rural bodies located in the area, dovetailed for the integrated provision of the service?, etc.

Supporting the suggestion made by Dr. Lall for mobilising the household savings for the housing sector, Shri Sharma observed that one of the reasons prompting an individual to save through provident fund, etc., is, that he can build a house of his own in due course. Shri Sharma opined that one of the pre-requisites for the successful implementation of housing sector programmes is a properly formulated land use and development policy. Unless the required land at reasonable prices is made available, any amount of housing finance mobilisation may not serve the purpose.

Shri Sharma also supported the arguments advanced by Shri Venkata Krishnan for differential service and price structures in the urban transport and suggested that only the fare for the journey to work, be subsidized and all other travels be charged at cost.

RECOMMENDATIONS

1. The Seminar noted that while urban population is increasing rapidly and is estimated to reach a figure of 315 million by the turn of the century, no adequate efforts are made either in terms of investments or building the local bodies' managerial capabilities, to resolve the complex pro-

blems that most cities and towns face today and whose severity is likely to increase in the near future.

2. Urban development in the previous five year plans received very low plan allocations, as a result of which various urban improvements suffered seriously and urban problems aggravated. The Seminar considers the urban development activities as productive ones, contributing substantially to the employment and national income. Therefore, it recommends that during the Seventh Five Year Plan the share of allocations to the urban development be substantially increased.

3. The Seminar recognises that urban development could not be considered as a single sector activity as it pervades many functional activities. Urban growth is an integral part of other productive sectors such as agriculture, industry, transport, etc. Therefore, there have to be in-built provisions for urban development requirements in all those sectoral projects, besides covering the needs of urban development in general under the social services group.

4. In addition to the plan allocations, institutional arrangements for financing urban development should be made available. For this purpose the seminar recommends the following:

(*a*) Urban Development Finance Corporation be established at the Centre with share capital from the central, state governments and other development institutions. It should be enabled with suitable fiscal incentives, to mobilise deposits from the household savings and private organised sector and meet substantial capital fund needs of the urban authorities.

(*b*) Restrictions placed today on urban local bodies in the matters of raising market loans and floating debentures should be modified to enable them to undertake larger capital works.

(*c*) Urban Refinancing Corporation should be established at the apex level to enable urban local bodies, and state urban undertakings to seek their financing for projects on the basis of the assets created.

(*d*) Lending institutions such as scheduled banks, insurance

companies, development banks should be freely allowed to advance loans for various types of urban development activities on reasonable terms.

5. In view of the fact that Seventh and Eighth Finance Commissions did not take into consideration the state governments' financial needs specially for stemming the deterioration in urban public services, the seminar recommends that the Government of India should specifically mention in the terms of reference to the next Finance Commission that financial needs of the state governments for upgrading urban services be duly considered and it should make recommendations to provide earmarked grants for the purpose. It should also include therein, the consideration of:

(*a*) the extent and quantum of financial obligations of the state governments in respect of urban local bodies for providing and maintaining a desired minimum level of essential physical, economic and social services for populations residing in their respective jurisdictions;

(*b*) the earmarking of essential quantum of financial assistance as the total grant-in-aid to the states out of the Consolidated Fund of India for being made available to the urban local bodies; and

(*c*) the clear enunciation of principles for the distribution of this quantum amongst the urban local bodies in each state.

6. The Finance Commission may also be asked in its specific terms of reference to examine the need for the state governments to set up State Municipal Finance Commissions to recommend the financial transfers from the state governments to the local bodies in addition to the ones from the Central Government.

7. The Seminar also recommends that the question of amending the Constitution in order to provide specifically for a local government set up in the overall administrative structure of the country and providing therein specific areas of operations and revenues be considered.

8. The Seminar while welcoming the establishment of state level functional organisations to deal with aspects of complex urban technologies such as in water supply, sanitation, drainage, transport, etc., emphasises that in setting up such organisations, there should be no reduction in the role or scope of the functioning of the local bodies and the local autonomy should be fully respected.

9. Sharing of taxes and other revenues between the Central, state and local bodies should be fully explored and appropriate formulae should be built into the statutes to enhance the resources for financing urban development. It would be desirable that local bodies are assigned new areas of taxation which are flexible and have scope for growth as urban development activities expand both in the area as well as in the range.

10. The Seminar also recognises the very important and substantial role that the private sector plays in urban development, specially in housing, and recommends that necessary climate be created, through promotional measures such as providing land and fiscal incentives to attract to the maximum extent possible the private sector capital for urban development.

11. The Seminar took note that unless all urban development activities especially the large projects in housing, transportation, etc., are well-coordinated and monitored, the desired results may not be obtained. Therefore the Seminar recommends that at the metropolitan region level and at local body level, coordinating machinery be established with full powers to appraise projects, fix priorities, recommend capital funds provision and monitor the execution. There should be some inbuilt incentives-cum-penalty measures to encourage efficient performance.

12. The Seminar recognised that in the ultimate analysis, urban development activities took place at the local level and in a decentralised manner. Therefore it is necessary to build the managerial capabilities at the local bodies' level to ensure efficient mobilisation of revenue sources and apply them to achieve maximum benefits. The Seminar recommends that a broad based programme of education and training at the local level be instituted.

Valedictory Address

*Raja J. Chellaih**

I accepted the invitation to this seminar as I would be with a group of serious scholars of the subject who after extensive deliberations are willing to put forward certain suggestions that should receive due attention by the Government of India as well as the Planning Commission. At the outset let me compliment IIPA's Centre for Urban Studies for having pioneered a high level research in the area of urban administration and development—an area which has long been neglected. Besides research, the Centre has also been organising a number of training programmes and providing a forum through seminars like this for scholars from all over the country to come together and exchange views.

I find that the seminar, during the last two days of deliberations, has covered many facets of the subject. It is usual for specialist groups to project the development needs mainly from the point of view of their area of specialisation. But while working in the Planning Commission, a major disciplining influence which one undergoes is to recognise that the development resources are very limited and yet (they) are to be judiciously apportioned among the need-based plans and programmes. At any given level of the development of a country, the funds that it can mobilise for investment are determined largely by three factors, *viz.*, domestic savings, the ratio of taxes to the gross national product (GNP) and the net inflow of capital from abroad. Investment in the government sector could be enlarged by a draft on private savings, but only up to certain limits, beyond which it may not prove helpful. Investible resources for public purposes are so restricted, there is no option but to determine the priorities for investment in the various sectors. This, of course, has to

*Member, Planning Commission.

be consistent with the basic development objectives about the income growth, employment generation, dispersal of wealth, etc. Major changes in the composition of the various sectoral investments could be expected only in pursuance of the change in the basic plan objectives. Therefore, whatever be the arguments about the economic contribution of the urban sector, the chances of its getting an increased percentage in the plan allocations seems to be remote. For an increased percentage for it would mean a cut in allocation for some other sector. This in turn might affect the package of objectives that are sought to be promoted. At any rate, during the seventh Plan period, an increased percentage share of allocations for the urban sector may not materialise. This does not, however, mean that the urban sector does not get increased quantums of outlays. Even if the percentage share remains at the existing level, the urban sector is likely to get much larger quantums of investments because the size of the new plan is many times larger than the previous one.

Having broadly stated the position with regard to the prospects of getting increased plan allocation for the urban sector, we may now consider the various ways by which the improvements in urban finances could be effected. In my view, the approach has to be on two fronts: The first is to improve the planning so that the urban sector needs are effectively dovetailed in the overall national planning process. I note that the seminar has highlighted the need to take urgent steps in this regard. State and sectoral plans before their finalization are subject to extensive discussions at the state capitals, as well as at the Planning Commission. From the little experience I have in this regard, I have a hunch that somewhere along the line, the specific problems and issues relating to the urban sector programmes are not examined adequately with the undesirable consequences now well known.

In the case of other sectors, say agriculture, one could see from the state plans that for achieving certain targeted production what is contemplated to be provided as inputs in extension of the irrigated area, quantum of fertiliser consumption, etc. But similar information about the length of roads and other facilities that are proposed to be provided in the urban areas to cope with the expected growth in the urban population is not

easy to discern in the state plans. I, therefore, suggest that major efforts be initiated to improve the planning procedures and techniques at the local and state levels, to bring to the fore the inter connections of urban sector improvements with the overall development plans of the states.

The second line of approach is the augmentation of the urban authorities' own financial resources. It has been correctly suggested in the seminar, that there ought to be larger financial devolutions to them. The recent report of the Planning Commission's Task Force group on financing urban development has recommended a certain percentage of the central Corporate Income Tax and a certain percentage of the states Sales Tax, Profession Tax and Entertainment tax be passed on to the urban governments. After all, the state governments themselves have been clamouring for long for the inclusion of the central Corporate Income tax in the divisible pool. They make demands on the centre on the plea of their fast-rising expenditures. Extending the argument, the states in turn should be made to agree to share their taxes with the urban authorities. On available indications it is doubtful if the state governments would agree for sharing of central devolutions with urban authorities, and if so, what their exact shape would be. But, whatever be the final arrangements in this regard, they have to be on very formal footing, so that scope for discretionary actions from above is the minimum, because the urban authorities should be enabled to have the freedom to decide the development investments and plan their executions.

Doubts may be raised whether the local authorities have the requisite capacities to utilise their resources properly. It is agreed that administration of the local taxes is wanting in many respects. Studies made on the administration of property tax in a number of cities including Calcutta, Delhi and Ahmedabad, etc., have revealed that collections are often at less than fifty per cent. Even in Madras, where rent control legislation is far less stringent, the collection is not dissimilar. The staff of the urban authorities is generally illtrained, inadequately equipped, poorly paid and not motivated. Unless urgent steps are taken to improve the capacity, morale and integrity of the staff, any attempt to transfer

more financial powers to the urban governments would only lead to wastage of the revenue potential. The reform efforts, therefore, are to be made simultaneously on both the fronts referred above. I am all for local autonomy and decentralised development and therefore would like to see that the capabilities of urban authorities are vastly improved.

A suggestion has been made in the seminar for the creation of an apex institution for urban development financing. I doubt how such a move is going to help the mobilisation of additional resources. Two questions I would like to pose in this connection are: Can redtapism be avoided and will the administrative overhead costs can be minimised. Personally, I am not very enthusiastic about this particular proposal. But in case, the suggestion is for the creation of an institution for urban development refinancing, then it is all right. The concept of refinancing has not yet picked up in this country. I envisage good scope for this particular area of financing in the years to come.

Let us now examine the urban authorities' freedom to raise loans from banks through debentures, etc. As already explained, the total quantum of investible resources is limited and they are to be very judiciously shared by the central government, state governments and other public agencies according to a preset priority. If the suggestion is that there should not be any such rationing and every public agency should have the freedom to approach the capital market, then the result would be that the Central Government and the more prosperous ones among the state governments and corporations would be cornering all the available funds. This kind of situation is certainly not desirable; therefore, rationing is unavoidable. The urban authorities could certainly plead that they may be recognised as a separate tier of government.

A suggestion is made that the private sector be encouraged to participate in urban infrastructure investments through a suitable package of investment allowances. Personally, I am for the abolition of investment allowances altogether, except those for encouraging location of industries in backward area. A more rational alternative would be a straight reduction in the tax rates. In my view, enough tax incentives

are already available in the existing tax structure for encouraging house constructions by the individuals. Owner-occupied properties are lightly taxed under the income tax, wealth tax and property tax laws. Recently, the capital gains tax is revised to exempt capital gains up to a certain level when they are reinvested in the construction of a house. It is generally known that real estate is one of the three major areas (the others being films and smuggling) that aggravated the problem of black money. Therefore, any concessions by way of investment allowance to the private real-estate builders would, I am afraid, encourage black money operations and hence has to be opposed.

In conclusion, I would like to express my agreement with the general thrust of the discussions in the seminar and its suggestions that urban sector investments be treated as productive investments but not as just social service programmes. City dwellers should be educated and made to realise that the urban services cost money and they should pay for them. Urban authorities' hands should be adequately strengthened to mobilise resources, take independent investment decisions and exercise high degree self-discipline.

SECTION II

Financing Urban Development —Key Issues

K.S.R.N. Sarma and G. Jha†*

The increased tempo of development activities in the country in recent years has accelerated the process of urbanisation. As a sequal, the demand for public services in urban areas increased manifold, in turn, requiring hefty investments in various infrastructural facilities. The Planning Commission's Task Force on Financing Urban Development in its recent report estimated that the capital investments required in urban infrastructural facilities may be in the order of Rs. 740 to Rs. 1,450 per capita depending on the level of services and technology employed.[1] In this estimation only the core items, *viz.*, water supply, sewerage, drainage, sanitation, solid wastes disposal, local roads, street lighting and land improvements are included.[2] Task Force Group also observed that the present investments in the above facilities are far below the desired levels and the backlogs are fast mounting.[3] For covering up the present backlogs and to catch-up with the growing

*Reader in Urban Finance, IIPA.

†Lecturer, in Urban Finance, IIPA.

[1]Financing of Urban Development. Task Forces on Housing and Urban Development (Report No. II), Government of India, Planning Commission, Dec. 1983, p. 20. For the componentwise break-up, please see Table No. 1 in the Appendix.

[2]Traditionally all the services listed belong to the responsibility domain of the municipal bodies. The present list does not include other essential urban services such as public transport, electricity, public housing, policing, etc. The non-inclusion may be due to the fact that the investment and administrative responsibility in their regard is traditionally outside the purview of the municipal bodies. This in no way be taken to mean as lowering the importance of the investments in the latter mentioned service facilities.

[3]Planning Commission, *Report of the Task Force Group, op. cit.*

demands for services, capital investments required to be made during the 1981-2001 period may be in the order of Rs. 26,000—Rs. 42,100 crores.[4] The estimation provides only a rough idea of the magnitude of the problem. For effectuation of the investments of the order indicated, not only funds have to flow in adequate measure, but also the financial planning and management in respect of urban development activities have to be considerably revamped for securing optimum results from the funds mobilised. Since the reference frame for the objectives to be promoted through urban development programmes is, more or less, the same as that for the development planning at the national level, the key to the twin problems referred above, seems to lie in efficient dovetailing of urban development requirements in the national planning framework. Hence the need for identification of the issues and finding solutions relevant for bringing out such plan integration.

PLAN ALLOCATIONS

Plan allocations, as in the case of most other sectors, constitute the principal source of finance for the urban development activities. But these allocations, as a percentage of total plan size have of late been on decline. In the Third Five Year Plan, urban and regional development together with housing, water supply and sanitation received about 14 per cent of total plan allocations. This percentage gradually came down to 7.68 during the Fourth Plan and to 3.5 and 2.5 in the Fifth and Sixth Plans respectively. In the context of growing urban activities and increased percentage of population living in urban centres, one would expect rather increased Plan allocations for urban improvements. The declining trend in the percentage share of allocation is, therefore, a little perplexing. It is recognised that the plan allocations are decided on a number of social, economic and political considerations but still, doubts persist whether the case of urban development is adequately represented. The matter assumes urgency as it is estimated that in about one and half decades,

[4]Planning Commission, *Report of the Task Force Group*, *op, cit.*, p. 26.

i.e., by 2001 A.D. the urban population of the country would reach the figure of 314 million, *i.e.*, about double the size of 160 million recorded in 1981 Census. Therefore, the need for concerted efforts to remove the constraints, if any, and for ensuring larger flow of plan funds could hardly be emphasized. Otherwise if the backlog in the investments in urban sector is allowed to pile-up, situations of Calcutta of sixtees might soon have to be faced in a number of other cities as well.

For securing a higher order of priority and thus enlarged plan allocations for various urban infrastructure improvements, it is imperative that the impression, if any, about they all being in the nature of social services, has to be first dispelled. Urban improvements contribute in a significant way for the growth of national income by facilitating employment of rural immigrants in more productive vocations, in the marketing of the produces of the hinterlands, etc. These contributions, though generally known, do not seem to get reflected in the planning process of the region concerned. This could be attributed to the weak information base at the field level. Urban sector's inter-relationship with the other productive sectors is, no doubt, complex and the farmer's contribution is largely indirect in nature. But that should not deter the efforts to secure a better appreciation of the role that urban investments play. A social cost-benefit analysis of urban projects should help to build better information base and thus improve the planning process at the local level. It is noticed that the modern appraisal techniques are not being employed in earnestness in most urban projects and this matter needs immediate attention.

HIGH PLANNING NORMS

Besides an inadequate projection of its contribution to the productive process two other factors, *viz.*, unrealistic planning norms and deficient financial estimation procedures, seem to have adversely affected the urban plans integration in the national planning framework. In the fixation of planning norms for various infrastructural facilities, the urban planners are often found to be guided by the elitist value judgements. Parameters such as the economic composition and the service

intake capacity of the client groups, the overall availability of physical resources, etc., are paid insufficient attention. Similarly in the estimation of financial requirements, the basis is the cost figures supplied by the engineers which usually pertain only to the capital construction phase. The total investment requirements are worked out by imputing the unit cost figures thus obtained with the expected service demands as per the adopted service norms. The expenditure requirements during the operation and maintenance phase are either ignored or given only cursory consideration. It is not difficult to visualise the distortions the above estimations could cause in the efforts to dovetail the urban development needs in the state and national planning process. The point may better be illustrated by considering the standards recommended in respect of potable water supply by the Zakaria Committee in 1963.[5] In the case of cities with population size of above 20 lakhs, the recommended norm is 40 gallons per capita per day. In the case of cities in the population range of 4 to 20 lakhs, the norm is 30 gallons per capita per day and for cities in the population range 1 to 4 lakhs, the norm is 25 gallons per capita per day (*vide* Table 2 in the Appendix). According to the 1981 Census there are 11 cities in the size class 10 lakhs and above and 200 in the size class 1 to 10 lakhs. These bigger cities not only account for nearly fifty per cent of the urban population but are also found to be growing at much faster rates (3 to 5 per cent) in comparison to the smaller size class urban centres. As the available evidence does not indicate the existence of any cost economics of scale in the provision of civic amenities, one deduction could be that under the combined impact of urban populations getting increasingly concentrated in the bigger cities and the high level of service norms recommended to be maintained therein, the per capita urban development costs would be steadily increasing in the years to come. One way to bring down the costs of development is to lower the levels of service. But the moves have to be highly cautious as any

[5]"Augmentation of Financial Resources of Urban Local Bodies". Report of the Committee of Ministers constituted by the Central Council of Local Self-Government (Chairman R. Zakaria) New Delhi, Government of India, Ministry of Health, 1963.

arbitrary reduction in the levels of norms might seriously jeopardise the future augmentations. A more appropriate course of action is to try and introduce new service technologies that are affordable. Research in this regard is going on but the improvements are slow to come about. An indication of the governments thinking in the matter could be had from their two recent policy decisions. The first is the scheme of environmental improvements in the slums wherein the basic civic amenities are sought to be provided with substantially lowered standards to help the poorer sections. The second is the scheme for the construction of pour flush latrines in small and medium towns instead of the conventional and costly sewerage systems.

IMPACT OF LOCATIONAL POLICIES

The accelerated growth of bigger cities, is viewed with concern by some, not because they involve very high level of per capita investments in the various civic facilities, but more on account of apprehension that such concentrations of economic activities and populations in a few places would lead to undesirable economic, social and political consequences. A major instrument for achieving the geographical dispersal of urban populations is the policy for location of major public sector undertakings and activities. It is not the intention to go into a detailed discussion of the locational policies of the central and state governments. The interest is limited to only to emphasize an aspect, *viz.*, the extent of attention devoted to the study of urbanisation implications in the major public sector locational decisions. It is expected that at the time of major locational decisions, examinations are undertaken to assess the likely impact on urban immigration, the rise in the demand for civic amenities and the additional expenditures that the local body of the area has to incur as a sequel, etc. The general impression is that the above matters are not given adequate attention. It may be mentioned that a major objective of the recently launched Central scheme of Integrated Development of Small and Medium Towns is to attract the rural emigrations more towards the small towns than to the bigger ones. In the operationalisation of this objective,

the Scheme, however, could not reflect sufficient grasp of urbanisation processes and as a result did not meet with much success. It is the considered view that there would have been greater success had the efforts been directed more on maintaining proper linkages between the policies of location and employment generation and urban infrastructure investments.

ARRANGEMENTS FOR FINANCIAL DEVOLUTIONS

We may now move over to the arrangements existing for the devolution of finances to the urban local bodies for augmentation and provision of civic services. Presently, formal arrangements exist for financial devolutions from the Centre to the state governments. In case of plan allocations, they are guided by the Gadgil's formula. The non-plan financial transfers are governed by elaborate provisions in the Constitution and are effected through the Finance Commissions appointed at quinquennial intervals. Unfortunately, no such formal arrangements exist in respect of financial transfers to the urban local bodies. The plan allocations are made to the states en block and they in turn are expected to reallocate them to the various development programmes under their zone of responsibility including that of the urban sector. As each state has its own inter-sectoral order of priorities, there is no guarantee that the flow of funds for urban development would be of uniform order in all the states and at the levels that are felt desirable. Similarly in the case of non-plan financial transfers also the national level Finance Commissions did not find it feasible to earmark specific amounts for the urban bodies (as the latter have no independent Constitutional status, they are treated as part of the state administrations). State governments do extend non-plan grants to the municipal bodies, but in large number of cases, they are not on formal and objective basis. Not only the quantums of grant are small, but their timings are also irregular. A few states such as Gujarat, Madhya Pradesh have in recent years introduced statutory reforms to put the grants to the municipal bodies on some objective footings. The Rural Urban

Relations Committee in its report[6] examined the municipal grants position and came out with the recommendation for the constitution of Municipal Finance Commissions at the states level on the same pattern as that of National Finance Commission. This recommendation is yet to be given effect in most of the states. The Planning Commission's Task Force Group while supporting the above suggestion of the RURC, also observrved that the present 'gap filling' approach of the state governments' grants to the municipal bodies be replaced by a more positive one to encourage the local initiative for advance planning and execution of service improvements.[7] They also suggested that the grant's formula should embrace three basic criteria, *viz.*, expenditure gap filling, weightage for the population and incentives for the revenue effort. To facilitate the tasks of the Municipal Finance Commissions, there should be some permanent arrangements for regular information collection and monitoring of the financial performance of the municipal bodies. As regards the Central Government's contribution, the Task Force Group suggested that ten per cent of the Corporate Income tax revenues be earmarked for the urban local bodies, and should be distributed to the states through the National Finance Commission, with clear pass through provision. All these suggestions need serious consideration.

LAND AS A RESOURCE

Apart from the plan allocations, there are two other major sources of finance for urban development. They are the 'revolving fund' built with the profits earned from the sale of developed urban lands and the loans from the public financial institutions. Maybe on account of special circumstances obtaining in Delhi, the Delhi Development Authority, over the years could mobilise substantial funds through method of 'revolving fund'. The same, however, was not found feasible to repeat in most other cities. Moreover, the

[6]Report of the Rural Urban Relations Committee, New Delhi, Ministry of Health and Family Planning, 1960, Vol. I, p. 88.

[7]Planning Commission's Task Force Group on Financing Urban

technique is observed to be not very much compatible with some of the general objectives of urban land development, particularly the one about making available a substantial share (about 80%) of the developed lands to the poorer income groups at prices affordable by them. The 'seed capital' in order to be revolved with increasingly larger margins has to be utilised largely on the development and sale of lands for the higher income groups and for the industrial and commercial clients. The percentage of land that is usually earmarked for the above category of users is relatively small and a number of other categories of users are required to be given substantial shares of developed land at cost or subsidized rates. Thus the technique in question has very limited potential to mobilise the required amounts for urban development.

URBAN DEVELOPMENT FINANCE CORPORATION

Under the Local Authorities Loan Act, 1914, the local authorities' powers to raise loans from the open market are highly restricted. Besides, the loans for the urban projects have to be accommodated within the overall quota fixed by the Reserve Bank of India in respect of the open market borrowings of the concerned state. In some cases, the relatively more remunerative urban projects such as markets, commercial complexes are constructed by raising loans from LIC and commercial banks. But since the interest rates are very high and period of repayment is very short, the extent of such financing is very limited. The position thus prompted the suggestion at various forums for establishment of a specialised financial corporation at the national level, for mobilisation of funds and cater to the long term financial needs of the municipal and other urban local bodies. The Planning Commission's Task Force Group on Financing Urban Development also supported the idea.[8] However, some express doubts whether the proposed corporation would be able to attract requisite amounts of deposits on fairly long term basis and on terms at which they could be repaid with the returns from the urban investments. These and other questions about the respective roles of the Central and state

[8] Planning Commission, *Report of the Task Force Group*, *op. cit.*

governments in the promotion and the management of the proposed corporation warrant very detailed debate before the idea is given concrete shape.

DIRECT INVESTMENTS BY THE CENTRE

Yet another suggestion for augmenting the finances for urban development is that the Central Government should share greater responsibility for investments in the sector. At present the Central Government's investments in urban sector are mostly confined to the functional areas that fall under the Central list. Apart from that there are only two centrally sponsored schemes in the urban sector: (*i*) Integrated Development of Small and Medium Towns; (*ii*) Environmental Improvements in the Slums. Under the former scheme, the Central Government extends loans upto a ceiling of Rs. 40 lakhs for works in the selected municipalities and requires matching financial contributions from the concerned state government and the municipal authority. In case of second mentioned scheme, the Central grants are extended on the basis of very stringent norms for infrastructural improvements in the slum pockets of the selected cities and towns. The nature and quantum of Central investments in urban sector at present, are thus very small in comparison to the total investment requirements. One of the suggestions for enlarging the Central Government's investment role in the urban sector, is for extension of the minimum needs programme to cover the urban poor also. In the face of fast growing urban slums and the squalor therein, the Central Government cannot continue to take marginal interest in the matters any longer. It is hoped, that in the coming years it would take more direct investment responsibilities for the augmentation of services for the urban poor.

CITY LEVEL FINANCIAL COORDINATION

Alongwith the promotion of linkages with the higher level plans, it is also imperative for the urban plans to ensure inter sectoral balanced development at the city level. In the process it is also required to secure maximum service coverage to

different cross sections of the population and localities; efficient take off of the operational phase from the development/construction phase; and reasonable parity between capacity building and its utilisation (temporal synchronisation). A major stumbling block in this connection is the existence of a number of field agencies operating at different levels of government. The proliferation of agencies is justified on the ground that only the specialised agencies would be able to attract the necessary tenchnical competence both in planning and in execution of projects. Most of the special agencies, besides being sectoral in character, have often the responsibilities limited only to the capital (development) construction phase only. Under the circumstances, the promotion of city level balanced development becomes largely that of securing inter-agency coordination. Apart from the difficulty arising from the differences in the levels of the government of the agencies, the differences in the arrangement for their financing seem to be affecting coordination. The plan finances are presently extended only for the development (capital construction) phase, the finances required in the operation phase are to be generated by the agency concerned from its clients beneficiaries or from other sources vested with it. Besides, the plan assistance is provided to the states, as already stated, in the form of bulk transfers. This has encouraged the state departments (or the agencies operating at the state level) take all the planning decisions about the urban infrastructure improvements and execute them through their field arms. Consultations at the city level to ascertain the clients' actual needs and paying capacities are often per functional. The result often is the creation of capital facilities without reference to the size of the committed budget for their eventual operation and maintenance.

TIME PHASING OF CAPITAL BUILD UP

As regards the time synchronisations between capacity augmentation and its utilisation, the major problem often is the difference in the time span of loan recovery and the gestation period involved in the demand pick-up. Technical compulsions often lead to the creation of capital capacities

far in excess of the immediate demands requiring commitment of huge funds. As the capital finance for urban improvements is available only in the form of loans which have to be repaid from the excesses generated through the service operations, temporal coordination has been found to be increasingly becoming difficult.

LAND USE CONTROL

It is generally held that the land use provisions in the Master Plans could be used for bringing about the inter-agency coordination. But this does not happen as the land costs are not a major component of the total financial outlays of most urban improvement propositions. Moreover, land use enforcement is basically regulatory in nature and cannot serve as a proactive mechanism to bring about the desired changes in the investment patterns for the inter and intra-agency coordination for balanced urban development. Devices for the above purpose, therefore, have to be found as part of the financial framework for urban plan implementation. An essential feature of that framework has to be the creation of a single nodal point where all public investments are monitored and reconciled. The issue is whether the municipal government can be given the coordinating responsibility, if not, what is the other agency that is best placed to assume the task. Another issue that needs deliberation is the extent of 'project planning' practised in the case of urban improvements and how the information generated therein is utilised to arrive at administrative and financial responsibility delineations among the participating agencies.

MUNICIPAL REVENUE BASE

The attention may now be directed to the operational finances and their management. It is generally acknowledged that the effectuation of development objectives, in the ultimate analysis, depends on the efficiency in the operation of the newly created facilities and a major determining factor of the latter is the finances. Since the operation and maintenance of the core urban infrastructural facilities is tradi-

tionally vested with the municipal bodies, strengthening the finances and their management in the municipal bodies, therefore, assumes critical importance. It is as vital as finding capital finances for the various urban improvement works. An added importance for strengthening the operational finances of the municipal bodies is the requirement of capital loans defrayment through operational margins. There is not much of matching between the functions and the financial resources assigned to the local bodies. The long list of obligatory functions in the municipal responsibility zone are in the nature of 'public goods' wherein direct cost-recovery from the clients is not feasible. These are to be necessarily met from the general tax mobilisations. But of late, there have been encroachments on the municipal revenue domain in the form of creation of special purpose agencies for functions such as water supply where cost recoveries are practicable; introduction of state taxes that fall on the same base as that of the municipal taxes (in sixties the Madhya Pradesh Government had taken away the property tax powers from the municipal bodies). There has been a debate for a long time for fresh review of functional obligations of the municipal bodies and financial resources vesting with them. It has been argued that they should be given more elastic sources of tax income. This being the general background the recent trends in the municipal finances may be briefly examined.

Recent studies have indicated that the municipal revenue incomes have been growing almost at the same rate as that of the state and Central governments. The annual rate of growth in the case of the former is 15 per cent against 17.5[9] per cent of the latter. It is also noticed that over 60 to 70 per cent of the municipal revenues accrue from the taxes that they are empowered to levy. Over the years there has not been any significant changes in the above position. However, the relative shares of contribution from two other sources of municipal revenue have been undergoing changes. The share of state devolutions—shared taxes and revenue grants—has increased from 11 to 14 per cent in the last

[9]Planning Commission, *Task Force on Housing and Urban Development, op. cit.*, p. 3.

decade in the case of corporations and from 15 to 19 per cent in the case of other municipal bodies. As against the above the share from the non-tax revenue sources, *i.e.*, rents from markets, licence fees, is found to be on decline in both the categories of municipal bodies. Two inferences could be drawn from the above. First is that the dependence of municipal bodies on state devolutions is increasing. The second is that there are genuine administrative and other difficulties in the municipal bodies realising larger revenues from their non-tax sources. Taking away some of the more remunerative municipal functions away from the purview of the municipal bodies could also be one of the reasons for the decline of the municipal non-tax revenues.

MUNICIPAL TAXATION

The principal municipal tax sources are property tax and octroi. With the increase in volume of economic activity in the cities and consequent increase in the income of the citizens, it is reasonable to expect the municipal tax revenues to be income buoyant. But the available evidence indicates that it is not so. The incomes from the property tax in particular seem to have been adversely affected by two factors, *viz.*, the Rent Control enactment and the inherent difficulties in the assessment procedures and practices. Prospects for the future seem to be further discouraging on account of: (1) the recent Supreme Court's Judgement in the case of Diwan Daulat Rai Kapoor *vs.* the NDMC, extending the logic of rent control for the determination of rateable values; (2) the Central Government's policy guidelines for devoting 80 per cent of all new housing construction under public auspices for the low income and economically weaker sections. The latter mentioned category of houses may not come under the assessment net for property taxation because of their poor rental valuations.

As regards the octroi, it is permitted to be levied by the municipal bodies only in a few states. Buoyancy of the revenues from this source seems to have been seriously affected because of archaic rate structures (which is not *ad valorem*) and, more importantly, on account of deficient collection

machinery. There has been a powerful lobby, for long, demanding the abolition of this tax on the plea that it seriously affects the free movement of goods transport by road. A suitable alternative source of revenue in place of octroi is, however, yet to be found.

UTILITY PRICING

In the case of public utilities, 'user charge principle' has been the basis for the provision of service. But because of the political and other compulsions, the price charges of these services could not be periodically revised in pace with the rising costs of production. This necessitated considerable cross subsidy from the general revenues (or state grants) and serious capital loan repayment problems or defaults. The latter, in turn, affected the prospects of securing the capital finances for expansions needed.

FINANCIAL MANAGEMENT

Moving over to the expenditure side, one of the significant trends observed is the steady decline in the per capita expenditures (in real terms) in the case of a number of municipal services. One plausible explanation could be that inadequate revenue mobilisations restricted the finances for services expansion and thus had a dampening effect on per capita services actually provided.[10] Alongwith the measures to improve the operational finances, need also exists for effecting suitable reforms in the financial management at the local level. In this context it may be mentioned that the Municipal Budgetary Reform Committee appointed by the Central Government in 1974[11] made a number of suggestions for

[10]A recent World Bank study observed that a municipal body's own revenue mobilisations have considerable impact on the levels of expenditure and on the standard of services it provides—*vide* Johannnes E. Linn, *Urban Finances in Developing Countries*, Washington. The World Bank Development Economics Department, Urban and Regional Economics Division, Report No. 80-85, 1980, p. 21.

[11]Report on Municipal Budgetary Reform, New Delhi, Government of India, Ministry of Works and Housing, 1974, p. 74-79.

improvement. The two major recommendations pertain to the adoption of performance budget and reorientation of the municipal accounting system more towards financial planning needs. These suggestions are yet to be seriously implemented.

TABLE 1 ESTIMATES OF PER CAPITA INVESTMENT COST NORMS (1980 RUPEES)

	Low	*High*
1. Water Supply		
(*a*) Surface system	245	350
(*b*) Ground water	200	300
2. Sewerage/Sanitation		
(*a*) Water-borne system with treatment plant	350	500
(*b*) Septic tank	200	225
(*c*) Pit latrines	120	150
A. Sub-total for 1-2 (range)	320, 400, 595	450, 525, 850
3. Solid Waste Disposal	25	40
4. Storm Water Drainage	75	100
5. Roads	200	300
6. Street Lighting	60	60
7. Land Preparation	60	100
B. Sub-total for 3-7	420	600
GRAND TOTAL (RANGE)	740, 820, 1015	1050, 1125, 1450

SOURCE: Task Forces on Housing and Urban Development, Report No. 2, *Financing of Urban Development*, Planning Commission, *op. cit.*, p. 45.

TABLE 2 SUGGESTED PER CAPITA NORM OF WATER SUPPLY PER DAY FOR VARIOUS GRADES OF TOWNSHIPS

(Gallons)

Sl. No.	*Water Use*	*Class A (Special)*	*Class A*	*Class B*	*Class C*	*Class D*	*Class E*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Drinking	1	1	1	1	1	1
2.	Cooking	2	2	2	2	2	2
3.	House Washing and clearing utensils, etc.	4	4	3	2	2	*
4.	Bath	12	12	8	8	7½	6½
5.	Clothes washing	3	3	3	3	*	*
6.	Water closet	7	7	7	5	*	*
7.	Industrial use	18	5	5	*	*	*
8.	Public use	4	4	2	2	2	*
9.	Fire Demand	6	5	2	1	*	*
10.	Losses	3	2	2	1	½	½
	TOTAL	60	45	35	25	15	10

*Use for which no provision is made in the system and to be met from other subsidiary sources.

ABSTRACT OF SUGGESTED STANDARDS/SPECIFICATIONS FOR STORM WATER DRAINAGE

Grade	*System of storm water*
A (Spl.)	Pucca covered drains with necessary culverts at road crossing designed or maximum run-off.
A	Pucca open drains with culverts for maximum rainfall.
B	Open pucca street and outfall drains.
C	do.
D	Well-cut earthen drains for streets with outfall drains constructed of pucca bricks or stones.
E	do.

SUGGESTED STANDARDS/SPECIFICATIONS FOR ROADS

Grade	*System of Roads*
1	2
A (Spl.)	Ring Roads 200′ R.O.W. Arterial Roads 150′ R.O.W. Sub-Arterial 100′ R.O.W with neighbourhood roads of 80′, 60′ & 40′ R.O.W. to be surfaced with 1″ to 2″ bitumen carpeting over necessary soling and sub-grades with necessary cycle tracks on either side.
B	Width of carriage ways and surfacing to be reduced to half the width as in 'A' Class with bitumen carpeting 1″ to 1½″ with necessary soling and subgrades.
C	Major roads with 44′ carriage way main roads of 22′ carriage ways other roads 12′ carriage way with 1″ bitumen carpeting.
D	Main roads with 22′ carriage way others 12′ with 1 bitumen carpeting in both cases.
E	Main roads with 22′ carriage way, other 12′ with 1 bitumen carpeting in both cases. Small roads to be 10′ wide metalled.

The standard—A (Special) may be operated in metropolitan cities like Bombay, Delhi and Calcutta with a population above 20 lakhs or in the case of industrial townships above 10 lakhs population, A in cities with a population of 5 to 20 lakhs, B in cities with a population of 1 to 5 lakhs, C in towns with a population of 50,000 to 1 lakh, D in towns with a population of 20,000 to 50,000 and E in small towns with a population of 5,000 to 20,000.

REFERENCE: "Augmentation of Financial Resources of Urban Local Bodies", Report of the Committee of Ministers constituted by the Central Council of Local Self Government, November, 1963.

Financing Urban Development

*R. Seshadri**

The Census of 1981 places the number of urban centres at 3359. The corresponding figure for 1971 was 2636. In the Census figures for 1981, as no Census was carried out in Assam and Jammu & Kashmir, the figure of the number of urban centres as in 1971 Census has not been taken for these two states. Thus, the increase in the number of urban settlements over 1971 figure was nearly 27 per cent. Even as a proportion of the total population, the urban population in 1981 is roughly 24 per cent as against about 20 per cent in 1971. Unmistakably, there is a growing trend towards greater urbanisation in the country.

PRESENT URBAN SCENE

With this growing urbanisation, pressure has been mounting on local governments for providing adequate civic services. Resources of municipal bodies have, however, not grown commensurate to their functions. Unless it is ensured that the financial resources placed at the disposal of the local bodies correspond to the statutory functions and obligations assigned to them, the local bodies cannot be expected to discharge their duties effectively.

Function-resource correspondence is, no doubt, difficult to strike. Under static conditions it may be possible to derive a model but there can be none for dynamic situation. Resources base may over a period dry up but functions continue with the added intensity. The disequilibrium may appear in the several units at different times.

FINANCES OF LOCAL BODIES

It is a well known fact that all local bodies in the country face constant financial stringencies and as a result thereof are

*Consultant (Finance), National Institute of Urban Affairs, New Delhi.

unable to provide adequate services to the citizens. And yet, paradoxically enough, there is a revenue surplus in the aggregate if we look into the budgets of the local bodies. A recent indepth study conducted for the Eighth Finance Commission by the National Institute of Urban Affairs reveals that in 1979-80, the total ordinary income of all the municipalities was approximately Rs. 850.75 crores. As against this, the ordinary expenditure was approximately Rs. 756.64 crores. There is thus an actual surplus of approximately Rs. 94 crores on this account. Even on the capital account, as against an income of about Rs. 206.25 crores, the expenditure was about Rs. 245.67 crores. When one takes this deficit of approximately Rs. 40 crores from the surplus on the revenue account, there is still overall surplus of about Rs. 54 crores. This position is reflected classwise ranging from metropolitan cities to class VI cities and statewise also. Obviously, on the simple arithmetic of income and expenditure, the local bodies would seem to be having sufficient money to meet their demands. But, in reality, the position is altogether different. We may look into the question as to why this distorted position is reflected in the municipal budgets. The reply can be found when we look into the State Municipalities Acts. To quote a few of these:

(*a*) Section 283 of the Karnataka Municipalities Act, 1964 states *inter alia* that a municipal council shall among other things, "allow for a balance at the end of the said year of not less than such sums as may be required to meet the establishment charges for a period of three months". This means that the budget must provide for the establishment charges for 12 months of the current financial year and three months of the next financial year;

(*b*) Section 9 of the Maharashtra Municipalities Act, 1965 requires every municipal council to build a salary reserve fund and to credit to it an amount equal to one month's salary of all its employees. Under Section 101(5) of the same Act, budget has to further provide for water supply fund and minimum cash balance as may be prescribed by the state government;

(c) Section 277 of the Rajasthan Municipalities Act, 1959 also requires the municipalities to maintain similar balance; and

(d) The Madhya Pradesh Municipalities Act, 1961 has also similar provisions and under section 116 it is mandatory for all municipalities to maintain a balance at the end of each year, the quantum of which is prescribed by the state government. In fact, under the same section, the state government has power to exercise control over the budget in municipalities which is indebted.

There are similar provisions in almost all State Municipal Acts which strictly prohibit the presentation of a deficit budget. This is a strong disincentive to the presentation of the deficit budget by the local bodies.

All these Acts are quoted to prove the point that a surplus balance at the end of the year in the budget of municipalities is meaningless; this is maintained at the cost of the reduced expenditure on essential services even, not to talk of creation of new services.

MOBILISATION OF INTERNAL RESOURCES

As we are looking into the finances for urban development, the first and foremost question that has to be looked into is whether the local bodies are capable of mobilising sufficient resources for the purpose of funding urban development and, if not, why not? In that context, it becomes relevant to look into the conventional methods of raising resources by way of collecting revenue through taxes and other methods which are prevalent in the existing context. The recent study by the National Institute of Urban Affairs has revealed that the total income of all the local bodies in India in 1979-80 accounts for Rs. 1057 crores which includes both the revenue and capital receipts. Out of this, the revenue account has alone accounted for 80.5 per cent of the total income or in whole rupees for Rs. 850.75 crores. When the revenue account is analysed, the major portion of it accounting for 65.4 per cent or Rs. 556.80 crores has come from the taxes. Again, when the

taxes are analysed, 40 per cent or Rs. 220 crores of the total income of the tax income is from octroi and the House/ Property Tax has yielded 25 per cent or Rs. 141 crores of the tax income. It is known that a policy decision has already been taken by the government at the highest level to abolish the levy of octroi duty and it is only a question of time before it is implemented in those states where it is still continuing. There cannot be two opinions about the fact that octroi has not only been the major source of revenue for the local bodies but also has been growing at a relatively faster rate. When we compare the income from this duty in 1974-75 with that of 1979-80, the figures have been Rs. 115 crores and Rs. 224 crores respectively, accounting for increase of 94.2 per cent in a period of 5 years. Once this duty is abolished, the local bodies will lose this vital source of income. Even assuming that the state governments will agree to compensate the loss due to abolition of octroi duty, the compensation cannot take into account the poignancy with which the duty has been yielding revenue to the local bodies.

HOUSE/PROPERTY TAX

With the abolition of octroi, the only other major source of income for the local bodies would be the House/Property Tax presently accounting for 25 per cent of the tax income. The possibility of this tax yielding higher returns seems to be very remote mainly because of the very many costraints in levy of this tax. The first and foremost has been the Rent Control Legislation and the Supreme Court judgement of September 24, 1976 which imposes on the assessing authority the obligation not to assess the House Tax at a higher value than the standard rent which means the rent that can reasonably be expected to be received. This would, in other words, mean that though the properties could be rented at a higher rate than market, expecially in metropolitan areas, the local bodies could not take cognizance of it and levy a proportionate tax. Although the Ministry of Works and Housing has recently brought forth a legislation amending the Rent Control Act, there has been stiff opposition to the implementation of that and it seems to have got stuck up. The second hurdle

is with regard to the revision of this tax periodically. Although in many of the municipal Acts, there is provision for quinquennial revision, in many states such revision could not take place due to several difficulties. Basically, the municipalities do not have the expertise to evaluate the cost of land and building which is the basis for the revision. Secondly, and more importantly, because of the fear of becoming unpopular with the local public, there is no political will to take any policy decision in this regard.

Also, the question quite often raised is that the Property Tax is looked upon as a user charge for services rendered than as a tax proper. The most plausible is that it partakes of both. As a tax, it has to be levied, as far as possible, in accordance with ability of the affected parties to pay. Ability to pay can be attributed only to individuals or institutions owning the property. In fact, the property tax is often regarded as the ideal form of local taxation and is supposed to be demanded from the people who have the ability to pay and at the same time enjoy the services as may be provided by the local bodies. Insofar as the former is concerned, as already pointed out earlier, it is because of the constraint that the tax has not been brought out as expected in a situation of rising urbanisation. Further, many of the central and state government properties are exempt from the levy of House/Property Tax. Unless the local bodies are allowed to mobilise all the resources legitimately due to them, they cannot become viable. Of course, this may call for amendment of the Constitution or a suitable central state arrangement whereby there will be automatic devolution of funds for this purpose.

SERVICE CHARGES/USER CHARGES

Insofar as the latter part, *viz.*, the service charges is concerned, the Property Tax must include the cost of the services, at least the basic services provided by the municipalities and enjoyed by the assessees. In fact, there must be a greater reliance on service charges which are otherwise called as user charges, for financing of urban services which are more amenable to such charges. The advantages would be manifold in

that a direction *quid pro quo* is established for the payment of the services and the benefit derived from these services. Secondly, this, approach would ask the beneficiaries alone to pay for it and would avoid the non-beneficiaries being asked to pay. Thirdly, the beneficiaries would be able to assess the quality of the services supplied in relation to the charges they pay and, lastly, institutional finance could be easily obtained or loans can then be directly raised. But unfortunately, the collection of service charges in respect of the different services is presently irrational and even the actual cost of provision of services and their maintenance is not being collected from the beneficiaries. This requires to be rationalised first. While expenditure on essential services in the case of those sections of population who definitely need to be subsidised may be met separately, the entire cost of provision, maintenance and expansion of services should be fully realised directly from the beneficiaries. Again, there are certain areas of expenditure by the local bodies which are not covered adequately by the different taxes and levies; for example, the floating urban population whom the municipalities have to unavoidably serve but the benefit of whose presence goes entirely to the private sector and others, are not taxed at all, either directly or indirectly. Therefore, it is necessary to devise a tax or other measure to collect the cost of providing the services and facilities to the floating population, either directly or indirectly.

The foregoing proposal would cover only those services that are more amenable to the user charges such as water supply, sewerage, drainage and sanitation, solid waste disposal, are a development, shelter and urban renewal. The other services such as roads, primary health, etc., cannot be brought under user charges approach and has, therefore, to be financed through regular budgetary or other procedures.

ASSIGNED REVENUE AND SHARED TAXES

Of late, many of the state governments have taken over and appropriated to themselves collection of certain taxes which should normally be within the domain of the municipalities. For example, Entertainment Tax, Motor-vehicles

Tax, Property Registration Fee, Entry Fee, etc. Some states share the revenue from these sources in some cases. In some of the other states, there appears to be no such sharing of the taxes. For example, Punjab, Himachal Pradesh and Uttar Pradesh. There seem to be no well-laid principles for sharing such taxes. Even the Motor Vehicles Tax which was earlier a municipal tax, has been provincialised since 1939. A compensation, on the basis of revenue forgone and calculated on the average of 3 years receipts immediately before the take over, was granted. Since then, it has undergone a lot of changes and generally a fixed percentage of the total receipts, say 25 per cent, is granted on bases which are neither explicit nor rational. Though it is granted for a functional responsibility, *i.e.*, maintenance of roads, the distributable share needs to be determined much higher, on the basis of the functional division of the responsibilities between the state and the municipal authorities. *Inter se* distribution among the municipal authorities must be made on the basis of objective and measurable criteria.

GRANTS

There are other grants which are not in the nature of sharing of taxes or assigned revenues. These are generally given as a grant-in-aid to enable the local bodies to discharge their responsibilities effectively and efficiently. These are generally called "general purpose grants". Here again, except for a few states such as Gujarat and Kerala where there is a Municipal Finance Board, there is no well-established institutional arrangement for a periodical review and reassessment of the quantum of such grants. It is only in Gujarat where a comprehensive grant-in-aid code has been prepared and is revised periodically. The existing system of devolution of state funds to the local bodies as such can best be described as ad hoc and impredictable depending on the vagaries of state's budgetary position and other allied sectors. All the above reasons have been mentioned only to show that the scope for mobilisation of resources by the local bodies is very much limited and no spectacular results can be expected even if the present constraints are removed. Therefore, the question of expecting

the local bodies to raise funds for provision of services or for capital expenditure is simply ruled out and other alternatives have to be thought of.

REVENUE GAP

A recent study by the Task Force has evaluated the total replacement value of infrastructure requirements of existing infrastructure of the order of Rs. 13,000 crores in 1981. At the current average maintenance cost of 10 per cent of replacement value, the maintenance liability of existing infrastructure should be at least Rs. 1,300 crores as compared to the total revenue income of Rs. 850 crores[1] all of which are not spent on maintenance. This sorry state of affairs has to be looked into for finding a suitable remedy. Municipal Finances in India operate on the assumption of fiscal autonomy. However, in the absence of any systematic method of transfer of states' resources to support even essential municipal activities, coupled with the often statutory requirement of balancing the municipal budgets through known sources of municipal revenues for committed items of municipal functions, municipal budgets by and large display a low level of fiscal equilibrium.

This position has come into being because of the fact that urban development is being carried out by a number of state agencies, such as development authorities, water supply and sewerage boards and others who create the assets but transfer them subsequently to the local bodies for maintenance without proper financial provision for their maintenance. Unfortunately, the local bodies are not free to levy user charges and this leads to a maintenance gap for urban public services. The separation of developmental and maintenance roles for urban public services also has the effect of determination of the plan size of the committed budget for urban public services so that at each successive stage of the plan expenditure, the backlog deficit for its maintenance goes on increasing.

Due to institutional separation of urban development and

[1]NIUA's Study for the Eighth Finance Commission.

maintenance, the linkage between the plan and non-plan components of the urban development gets blurred and hidden. Because of the poor maintenance, the services deteriorate faster. It may be mentioned here that even the advanced countries like the United States of America are reported to be facing a massive problem of replacing worn out infrastructure which was created in the earlier years of urbanisation. For want of adequate provision for their replacement, the incidence of break-down of roads, bridges, etc., is reported to be more frequent.

In the earlier paragraphs, the remote scope for mobilising the internal resources by the local bodies has been brought out and in this paragraph the need for augmenting the revenues of the local bodies in order to maintain the services has been stressed. All this would prove that the local bodies by themselves would not be able to raise the necessary capital for providing the services.

FIVE YEAR PLANS AND URBAN DEVELOPMENT

Local bodies in India have a double disadvantage in the matters of access to funds for maintenance of day-to-day administration and for capital investment for upgrading the infrastructure. Being creatures of states, they are outside the purview of statutory devolution of funds and, therefore, are wholly dependent in the matter of grants upon the discretion of the state governments. In the matter of sharing the funds available for investment through the Five Year Plans, most municipalities are once again outside the purview of the Plans. Whatever funds are made available to the local bodies for capital investment are restricted to what each state government is prepared to dole out from its own Plan allocations under various heads. There is, however, no systematic attempt at preparing a perspective Plan for urban areas and trying to fit it into the overall perspective of the Five Year Plans. The local bodies at present also have no access to capital markets, this function being reserved for state governments and that too under overall limitations of plan finance under Reserve Bank guidelines. Thus, the local bodies' dependence on state government is almost total for

capital funding. Their borrowing powers are defined in terms of:

(*a*) the percentage of total annual rateable value;
(*b*) the percentage of own domestic revenue; and
(*c*) monitoring the savings.

Under central legislation—the Local Bodies Loan Act, 1914—state governments can sanction market borrowings of Rs. 5 lakhs each with a repayment period of 30 years only. Beyond this, the approval of the central government is also required. No doubt, the local bodies get some capital funds from the Life Insurance Corporation of India, General Insurance Corporation and other financial institutions for their commercial and viable projects such as housing, markets and, to some extent, water supply subject, of course, to the limitations foregoing. Most other urban projects or infrastructure that are not commercially viable have to be otherwise funded through plan finance. As already mentioned above, the major difficulty in the existing methods of plan finance for urban infrastructure is the lack of linkage with any municipal planning and budgeting process. Their revenue income also is so scarce that adequate maintenance of even existing services cannot be carried out with any efficiency. This position has to be remedied with effective integration of municipal planning and funding of their projects on a 5-yearly basis. The state governments should issue general guidelines to the municipal bodies for the formulation of their respective municipal programmes under the specific sectors so that they can be integrated with the state plans for urban development along with the Plans of other agencies. The municipal bodies should also be asked to prepare capital and revenue budget separately for the Five Year Plan period. This would enable proper integration of municipal finances with the state and national fiscal policies. If this is done, the vexed problem of ensuring that the additionality of funds given for the purpose of assisting local bodies is in fact passed on by the state governments to these institutions can best be resolved. Further, as at present, there is no direct routing of fund by the central government to the local bodies. It is not altoge-

ther unknown for the state governments to divert funds meant for local bodies either by not passing them on or by making countervailing deductions in normal assistance from the state budget. Without bringing about any change in the constitutional relationship between local bodies and the state governments, there is still scope for evolving institutional arrangements which will ensure smooth and adequate transfer of funds to the urban local bodies. The Kerala and Gujarat governments have done this statutorily and West Bengal has done it by administrative arrangements. In Gujarat, for example, the Municipal Finance Board constituted under the Gujarat Municipal Finance Board Act, 1979 is the channel through which the grant-in-aid, loans, etc., flow from government to the local bodies. The advantage of such an arrangement is that a statutory board can develop suitable pressure on behalf of local bodies and which could prevent the local government from cutting into municipal resources. Some such institutions will have to be developed in all the states so that any additional funds flowing from the Centre to the states for urban local bodies, find their rightful way to the municipalities. It would then be for the concerned municipality to ensure proper utilisation of the funds so given.

Insofar as Housing is concerned, the HUDCO has been doing a satisfactory job in providing necessary funds to all the state housing boards and local bodies. The Life Insurance Corporation is also statutorily required to invest in socially-oriented schemes, including housing, water supply and sewerage. There is need to increase LIC's allocation for financing the Economically Weaker Sections and Low Income Group housing. Though the LIC has policy-linked loans for housing, it has not been very successful since it is not made attractive for its policy holders. Thus, the sectors other than housing, require a lot of funds and some institutional arrangement seems to be imperative on this account. Strengthening institutional financing arrangements for urban infrastructure needs a more unified approach and it is encouraging that the Government of India has recently accepted the creation of such an institution to promote a new type of developmental activity in financing the urban infrastructure. It is reported

that a sum of Rs. 1 crore has been set aside as token provision for this purpose and it is hoped that it would take shape.

INVESTMENT REQUIREMENTS IN URBAN INFRASTRUCTURE

Recently the Association of Metropolitan Development Authorities (AMDA) representing the million-plus cities, sent in a representation to the Ministry of Works and Housing and the Planning Commission wherein they have estimated the outlays required for the core elements in the urban sector covering water supply, sewerage and drainage, roads, slum improvement, land acquisition and development of sites and services, and urban renewal of the order of Rs. 12,000 crores for the million-plus cities and those on the threshold of million-plus. If the other towns are also taken into account, on a most conservative estimate, the figure can be doubled which would mean an investment of not less than Rs. 24,000 crores over a period of 20 years. The Task Force set up by the Planning Commission has also considered it prudent to take the median figure of Rs. 8,000 crores as the total investment requirement in urban infrastructure for the period 1986-91. The figure worked out (on the low side) for the period 1981-2001 is of the order of Rs. 26,000 crores. The figures could thus be taken as more or less realistic. These figures do not include the replacement of the existing worn-out services. These figures are quoted only to show the magnitude of the investment requirement for urban infrastructure. This cannot be done by the existing agencies and a separate financial institution would be most essential for dealing with investment of such a high order. In the Sixth Five Year Plan period, the Government of India allocated a sum of Rs. 200 crores for the integrated development of small and medium towns numbering about 200. Owing to problems in planning and implementation at the state and local body levels, it appears that even this relatively smaller allocation could not be fully utilised. In addition to the implementation problems, the system of allocation of Plan funds causes a large number of delays which eventually results in increased costs which are not provided for.

Therefore, there is an absolute need for more flexible system of financing of capital investment in urban areas. On the one hand, there is urgent need to establish financial institutions which can finance the projects on long-term basis and, on the other, the agencies for urban development and maintenance have to be strengthened, both financially and technically, so that they are capable of receiving and investing these fund. The objective of the central investment should be to make it feasible, as far as possible, for every single municipal town in India to find funds for essential municipal projects. A further objective should be to ensure that every municipality has a direct working relationship with a financial institution and there is no third party intervention necessary. In this behalf, the following suggestions are made:

(*a*) 'Lead Bank' role should be assigned in every district to a selected nationalised bank for the servicing of urban sector;

(*b*) Every municipality in India, ranging from the largest metropolitan municipality to the smallest town municipality, should be assigned one or more 'lead banks';

(*c*) Every municipality should be given a credit limit with the 'lead bank', within which the municipality must operate;

(*d*) The credit limit for each municipality should carry an automatic local/central government guarantee, which could be either a direct guarantee or covered by a 'credit guarantee insurance fund' to be specially set up;

(*e*) Every municipality would thereafter prepare viable projects for urban development, which could cover the gamut of infrastructural/replacement and services, commercial development and local housing, etc. There could be differential rates applied to different categories of schemes, with either cross-subsidies being arranged within the schemes or certain interest subsidy, if made available by government, for schemes of infrastructural development;

(*f*) The schemes prepared by the municipality would be submitted to the 'lead bank', which would appraise them. Sufficient powers should be vested in the local managers of the lead banks to sanction schemes which are found to be feasible;

(*g*) Funds would be drawn by the local bodies for implementation of the schemes up to the aforesaid credit limit available to the local bodies. For example, if the credit limit is Rs. 50 lakhs and five schemes costing a total of Rs. 2 crores have been sanctioned, funds could be drawn as per a phased programme for one, or all the sanctioned schemes upto a limit of Rs. 50 lakhs at any given time. The drawal of funds would have also to be as per the approved phasing of the scheme and there would have to be a reimbursement to bank as per the approved phasing.

The advantages of creating such a system would be:

(*a*) Government need not directly invest any money in integrated urban development as is being done at present, except for the initial seed capital needed 'to create a credit guarantee insurance fund';

(*b*) Every municipality would be given corresponding access to the banking system in order to meet the requirements of capital funding;

(*c*) The outgo for the banking system would be marginal as compared to the total size of the banking credit operations in this country;

(*d*) Municipalities would be forced to develop a proper expertise in the preparation of projects and in their subsequent implementation because funds would flow only if projects are found feasible and their implementation is efficient;

(*e*) There would be a complementary building up of expertise in the banking system for the proper appraisal and monitoring of urban projects;

(*f*) At the national level, there would be great advantage to the government because, instead of extending the benefit of development to 200 towns as in the case of

Sixth plan, a scheme would have been formulated which, theoretically, would bring every municipal town under the umbrella of development finance;

(g) In terms of procedures, because no sanctions would be needed from government and no government guarantee would have to be obtained, there would be a minimum of procedural delay in project preparation and project sanction. Both the actors in this drama, the municipality and the bank, would be located in one place and interaction could be constant and quick. Provided that the municipality prepares a feasible project and the bank accepts its viability, the sanction would be immediate and the flow of funds would begin shortly thereafter;

(h) There would be a definite enhancement of a feeling of participation at local level if both the plan preparation and the plan funding is to be done locally;

(i) A substantial improvement in the structure of financial management would follow because the banks insist on financial discipline in order that their funds are safeguarded. This would be a very healthy development.

Lastly, the main question arises with regard to the financing of the financial institutions for urban development. As mentioned earlier, the central government is allocating some amount for the integrated development of small and medium towns but which has not had the desired result as it touches only the fringe of the problem. Whatever may be that amount, it could be diverted as the Seed Capital or Revolving Fund or Credit Guarantee Insurance Fund. The Reserve Bank may also be asked to take a lead role in promoting such an institution. Other development financial institutions should also be encouraged to start such a venture. The entire capital structure could be built over a period of 5 years. With the initial capital coming from the Reserve Bank and other contributions from other developmental institutions at the All India and State levels such as ICICI, IDBI, IFCI, NABARD, HUDCO, UTI, LIC, GIC, State Finance Corporations, Urban Development Corporations, etc., it should

be possible to raise at least Rs. 500 crores initially. It could be built up in course of time. Some of the local bodies having surplus should also be permitted to invest their savings in short-term loans with this institution.

The constitutional and operating policies have to be worked out in detail in order to make the institution more flexible and effective.

Financing of Development in Small and Medium Towns of Madhya Pradesh

*S.K. Sharma**

India is primarily an agricultural country with about 75 per cent of its people living in rural areas. The total population is estimated at 683 million according to the 1981 Census figures. In recent years, the urban population of India has begun to expand rapidly, from 107 million in 1971 (20 % of total population) to 156 million in 1981 (23.5 % of total population). During the 1971-81 period, the urban population grew at around 4 per cent annually (compared to 3.3% during 1961-71) while the rural population grew at an annual rate of only 1.75 per cent. If present growth rate continues, about 50 per cent of India's population growth over the next two decades will be in cities/towns.

NATIONAL URBANIZATION TRENDS

According to the 1981 Census, about 60 per cent of the urban population lived in 216 cities with population of more than 1,00,000. An additional 11.6 per cent of the urban population lived in 270 towns with populations between 50,000 and 1,00,000. The growth of cities of all sizes has led to serious deficits in urban services and shelter.

While primary responsibility for the formulation and implementation of urban development programmes in India rests with state governments and local bodies, overall development policies and strategies are influenced by objectives laid down in the national five-year plans. The Sixth National

*Chairman and Managing Director, HUDCO, New Delhi.

Five-Year Plan (1980-85) stressed the need for providing affordable shelter, safe water supply and adequate sanitation to the urban poor. To achieve these objectives, particular attention was to be given to the modification of existing bye-laws, land use controls and minimum plot size requirements. Efforts are also to be made to address the problems of slums by upgradation rather than by relocation in order to maintain easy access to employment centres and to avoid destruction of the existing housing stocks.

In the early 1970's, the Government of India began using central funding to address urban problems directly in the larger metropolitan cities, beginning with direct financial assistance to Calcutta. Similar efforts in Bombay and Madras followed. Also, a Centrally funded minimum needs programme was introduced under the Fifth Five-Year Plan which laid emphasis on environmental improvements in urban slums. Improvements were made in many slums under this programme but costs were not recovered and land tenure was not usually provided. Under the Sixth Five-Year Plan, a Centrally funded programme for Integrated Development of Small and Medium Towns (IDSMT) for financing land development, market centres and traffic and transportation schemes in towns with less than 1,00,000 inhabitants was introduced.

URBAN TRENDS IN MADHYA PRADESH

Madhya Pradesh is the largest State in India, covering 13.6 per cent of the total area of the country. With a population of 52 million, Madhya Pradesh has about 7.6 per cent of India's population. In spite of the State's agricultural potential and natural resources, Madhya Pradesh ranks among the lowest by almost all measures of development, including per capita income (Rs. 1,180 in 1980-81 current prices compared to Rs. 1,540 for All-India). Low agricultural productivity has been largely due to lack of irrigation facilities. While mining and manufacturing are still small in relation to the agricultural share of the state's product, they have grown much more rapidly and are beginning to have an important impact on the state's economy.

The 1981 urban population of Madhya Pradesh was about 10.6 million or about 20 per cent of the state's 52 million population. Urban population was expanding rapidly, at 4.6 per cent annually, during 1971-81 which was about twice the rate of population growth for the state. In contrast to some states, urban growth in Madhya Pradesh has not been concentrated in any one city. There are four large cities with populations above 5,00,000, namely, Indore, Jabalpur, Bhopal and Gwalior. A fifth large urban agglomeration is growing rapidly at Bhilai-Durg-Raipur which had a combined 1981 population of 8,29,000. The potential for future urban growth appears to be highest in the Indore and the Bhilai regions which have the greatest economic potential. The cities of the Indore region, namely, Indore-Dewas-Ujjain have an expanding agro-industrial and commercial base. The Bhilai region is an important manufacturing centre for steel and related industries. Its largest city, Raipur, is expanding rapidly as a commercial centre for a wide area.

URBAN ADMINISTRATION AND FINANCE IN MADHYA PRADESH

The responsibility for urban planning, administration and finance is shared by a number of agencies in Madhya Pradesh. The Department of Local Government, under the Minister for Local Government, is responsible for supervising the activities of the municipal corporations, and municipalities. Supervision of the municipalities is through the Directorate of Urban Administration and includes reviews of their budgets and staffing. Municipal corporations have a greater degree of independence. The local governments are primarily responsible for municipal services and maintenance such as street cleaning and lighting, removal of solid wastes and nightsoil and, in most towns, administration of water supplies.

The Town and Country Planning Department, drawing authority from the Madhya Pradesh Town and Country Planning Act 1973 is responsible for regional and urban planning and for according 'planning clearance' in the state. It functions under the Department of Housing and Environ-

ment. Under the Town and Country Planning Act, TCPD has been charged with the responsibility of undertaking regional planning studies and preparing urban development plans. It is also responsible for giving statutory clearance for specific development projects including industrial locations. It supervises the programmes of the municipal and development authorities in regard to planning norms and standards. In other words, it is the principal agency for preparation of development plans and supervising and enforcing their implementation.

As far as execution of urban development schemes is concerned, a number of agencies have been constituted. These are:

1. *Madhya Pradesh Housing Board*: Constituted under the Madhya Pradesh Housing Board Act 1972, the Madhya Pradesh Housing Board is a state level organisation responsible for executing schemes of housing and related urban amenities in the various towns of the state.
2. *Urban Development Authorities*: These authorities are constituted under the Town and Country Planning Act in respect of specified urban areas for which urban development plans have been finalized by the Town and Country Planning Department. These authorities are responsible for implementing the development plans by acquiring land and undertaking housing and other urban development schemes.
3. *Town Improvement Trusts*: These are set up under the MP Town Improvement Trust Act 1960 in towns for which development plans have still not been finalised by TCPD. These Trusts take up specific development projects after obtaining necessary clearance from the Town and Country Planning Department. Once urban development plans are finalized for these towns, the Town Improvement Trusts are upgraded into Development Authorities.
4. *Special Area Development Authorities*: These authorities are also constituted under the MP Town and Country Planning Act for special areas of industrial or

cultural significance. These authorities discharge municipal functions in addition to development functions. Keeping in view the special requirements of the industrial areas and the conservation aspects of cultural reserves, these Authorities discharge the functions of development and civic maintenance.

Though the above authorities are constituted under different acts and occasionally operate in the same areas, they function under the Planning control of the Town and Country Planning Department. Coordination between the municipal authorities and the development agencies is accomplished by having a common Secretary for the Housing and Environment Department, and Local Government Development Department. The Directorate of Town and Country Planning plays a central role in the sector.

At the local level, most of the development agencies are staffed with engineers and architects. Their projects often reflect inadequate planning and weak economic and financial analysis, and cost recovery is limited. Financial viability is also hampered by lack of adequate accounting and budgeting systems and many development agencies are running at serious deficits, but since accounts are kept on cash basis they do not reflect accurately their financial position. The Directorate of Urban Administration has supported studies in municipal finance and management.

The working of Municipal governments is generally hampered by a lack of adequate financing. Some are running at serious deficits (Rs. 281 crores in Indore in 1981-82). Municipal revenues depend heavily on property taxes and on compensation from the state government for the octroi tax which was abolished in 1976. Most cities, and especially Indore are running at large deficits in managing their water supply/distribution systems. The capacity of local management and accounting systems is also a major constraint to the expansion of municipal services.

URBAN SERVICES AND SHELTER IN MADHYA PRADESH

A review of physical conditions in the urban areas of Madhya Pradesh reveals serious deficiencies in infrastructural

services and housing. About 50 per cent of the urban population does not have access to safe water supply, and attempts at improvements are hampered by low water revenues. There are sewerage systems in only a few areas of the largest cities, and alternative means of sanitation such as nightsoil collection are inadequate. Many cities have immediate need for sanitation, improved drainage, refuse collection and maintenance, and some of the larger cities require improved traffic management. The provision of these services is not being planned by municipal governments in an orderly way, based on a thorough assessment of needs, priorities and available resources.

There are severe shortages of serviced urban land and shelter. Majority of the urban housing stock is in squatter settlements without land tenure; another large percentage of urban housing is in densely populated rental tenements in the hearts of the cities.

THE PROBLEM OF SLUM SETTLEMENTS

As in most urban areas of the country, the towns in Madhya Pradesh are facing a major problem of growth of slums. The heavy migration from rural areas in search of employment leads to squatting on open areas and development of shanty colonies with practically no civic services leading to unhygienic conditions. Under the environmental improvement scheme, the state government advanced grants to municipal authorities for providing minimum civic services in these areas. The occupants, however, did not have any tenure rights on the land occupied by them and there was no systematic programme for improving their overall economic condition. In 1982, the MP Government constituted a Slum Clearance Board under the MP Slum Clearance Act. The Slum Clearance Board was expected to coordinate the efforts of various urban authorities in regard to improving the conditions of the slum dwellers. The Slum Clearance Board remained largely ineffective and in 1984, the MP Government established a separate department named Urban Welfare Department which launched a massive programme for comprehensive improvement in the civic services and

economic life of the slum dwellers. A key feauture of the programme is according tenure rights to the slum dwellers so as to make them eligible for bank finance and programmes for their economic uplift.

While in the programmes of the public housing agencies, there is emphasis on housing for the economically weaker sections, houses constructed by them are largely unaffordable by the poorest amongst the poor living in shanty colonies. The conferring of tenure rights on the lands presently in their occupation provided the location does not seriously interfere with the development plan of the city, coupled with programmes for general economic development launched by the Urban Welfare Department seems to be a step in the right direction. In order to ensure that the scheme has a wider impact, it is, however, essential that the affordability and eligibility criteria are satisfied so that institutional finance can be introduced in the programme. Programmes based entirely on state subsidies can have only a limited impact.

PLANNING REGIONS

The Town and Country Planning Department, Madhya Pradesh in its study on "Planning Strategy and Planning Regions in Madhya Pradesh" has divided the state into ten planning regions, based on physio-social and economic considerations. The following aspects have been taken into consideration for purposes of delineation:

Topography;
Type of soil and vegetation;
Climate;
Cropping pattern;
Mineral resources;
Social and ethnic groups;
Social customs and traditions;
Population and density variation;
Economic linkages, movement of goods between focal points and regions;
Administrative boundaries.

On the basis of the above parameters, the state has been divided into ten planning regions described in Annexure A.

It would be desirable to take each of these ten regions separately for the identification of priority settlements which may be considered for undertaking integrated development. It may, however, be pointed out that though under the Town and Country Planning Act, the TCPD is expected to undertake regional planning studies and formulate regional development plans for these regions, it has, so far, not been able to take up such studies in any of the identified regions. It is largely on account of inadequacy of planning staff, concentration on urban planning studies in the larger towns and the pressing requirements of planning clearance of projects on hand, that regional planning has suffered. This neglect of regional planning is an all India phenomenon and is primarily responsible for failure to achieve integrated and coordinated growth.

FINANCING OF DEVELOPMENT IN SMALL AND MEDIUM TOWNS OF MP

The basic aim of financing development of secondary towns is to check the migration of population from secondary towns and their rural hinterland to metropolitan cities which are now bursting at their seams because of unprecedented population influx from these areas. Secondly, it aims at providing adequate infrastructure for growth of the secondary towns which otherwise are deteriorating, stagnating and occasionally decaying due to non-availability of employment opportunities, essential services and infrastructural facilities.

The problem has aggravated due to the absence of a national urbanisation policy and a regional development strategy without which there has been an unbalanced growth of urban areas in the national fabric and has resulted in serious regional imbalances all over. The major problem faced by these secondary towns with population of one lakh or below is inadequacy of funds for: (*a*) land acquisition and development, (*b*) housing schemes, (*c*) basic sanitation schemes, (*d*) environmental improvement schemes, (*e*) commercial schemes, and (*f*) traffic and transportation schemes.

The identification of the towns under the IDSMT schemes needs to be done on the basis of their potential in the regional context, that is to say, the pull exercised by the larger town in the region and the push from the rural areas which the identified towns are capable of absorbing. Having identified and selected the towns, the development strategy should be designed to concentrate efforts on critical areas having spread effects as well as achieving basic self-sufficiency. For target groups, access to basic services like potable water supply, basic sanitation, health and educational facilities is the criteria. From the investment point of view, apart from public investment, the aim is to generate and channelise investment from the private sector and individual families in the desired type of development acitivities. Necessary incentives by way of relaxations or concessions will have to be built into the municipal tax structure. Building codes and standards is another important area which plays a strategic role in impeding or stepping up the urban development and as such realistic building standards and codes in keeping with economic realities and actual situations will have to be framed for achieving the desired results.

At macro and regional levels, transport linkages, location of economic activities to provide economic opportunities, marketing and trade facilities should get priority which should be articulated at state or, at times, at national levels for achieving the objective. Communication net-work and related facilities as well as power requirements to meet the infrastructure needs and economic activities should also get higher priority as they play a very important role in creating a better quality of life for residents and reduces the tendency for migration and decay of towns.

The towns identified in Madhya Pradesh and the financial progress achieved during the Sixth Plan period is indicated in the statement at Annexure B. The progress has been generally unsatisfactory and in a number of towns, even the second instalment of assistance has not been drawn. The IDSMT scheme in Madhya Pradesh has suffered from the following deficiencies:

1. Since regional planning studies have not been under-

taken in the state (for that matter in almost the entire country), the selection of towns was largely based on 'visible' requirements and political considerations. Furthermore, since the scale of funding was meagre, the schemes largely turned out to be land development schemes and not integrated schemes covering deficiencies in civic infrastructure and maintenance.

2. In order to submit the scheme to the Government of India within specified time limits and faced with inadequacy of resources and technical staff, most of the schemes were prepared without adequate site surveys and planning studies resulting in serious problems and delays at the implementation stage.
3. After the schemes had been sanctioned, the agencies responsible for their implementation, mostly newly set up, were ill equipped with neither adequate planning staff to detail out a proper urban form nor engineers to execute the schemes.
4. Matching contribution from the state government was not forthcoming since there was not adequate corresponding provision in the state plan.

Due to these deficiencies the IDSMT scheme has not been able to make any significant impact on the urban development programmes of the country.

We now turn our attention to the urban development project financed by the World Bank.

MADHYA PRADESH WORLD BANK URBAN DEVELOPMENT PROJECT

An integrated urban development scheme jointly assisted by the World Bank and the Housing and Urban Development Corporation (HUDCO), will provide improved services and shelter to nearly 3.5 lacs of urban poor in 10 towns of Madhya Pradesh. In this project, HUDCO is a financial intermediary for utilising the World Bank assistance as well as co-financer of the project. The MP integrated urban development project is the first pilot project taken up by the World Bank and HUDCO as a state level *multi-city project*.

The World Bank has approved a loan of 24.1 million US dollars (Rs. 22.895 crores) and the Government of India would pass on Rs. 19.07 crores as IDA contribution to HUDCO, and HUDCO in turn would make available Rs. 31.46 crores to MP Housing Board towards project implementation. A part of the project will be implemented by the MP Housing Board and the remaining by Municipal Bodies and Development Authorities of the selected towns.

The project includes components for:

Area Development,
Slum Upgradation for Medium Towns,
Sanitation,
Off-site Infrastructure,
Municipal Maintenance,
Solid Waste Management, and
Technical Assistance.

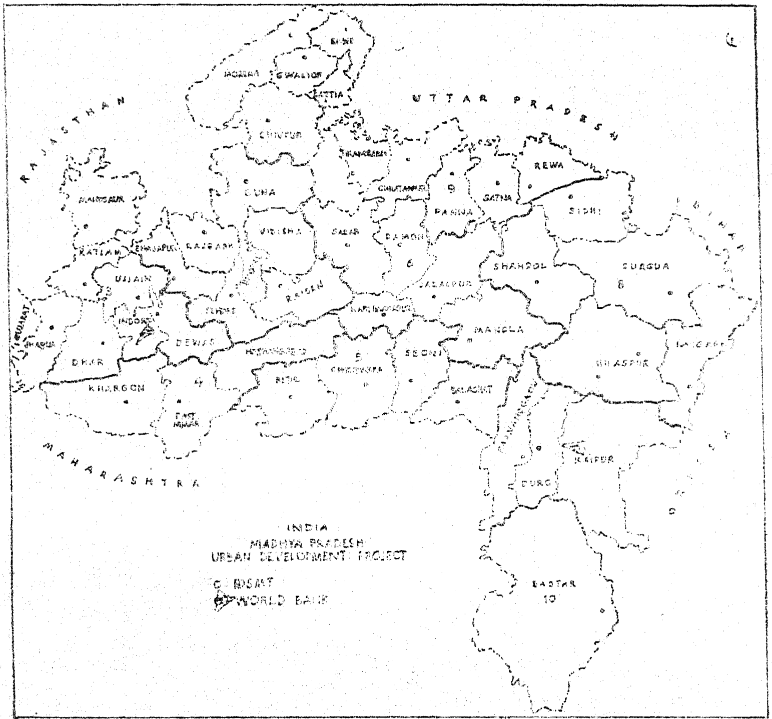
Immediately, six towns of Madhya Pradesh in two urban agglomerations, namely, Indore-Dewas-Ujjain and Durg-Bhilai-Raipur would be covered. Four more medium towns are to be identified later. The project would be implemented in 5 years.

Under the Area Development Component 18,426 dwelling units/plots would be constructed/developed benefiting a population of about 93,000 in the 6 towns. The plots and the dwelling units proposed would predominantly benefit the economically weaker and low income sections of the population. The slum upgradation component would benefit 37,414 families scattered in 75 slums in the six towns. The slums would be upgraded with improved services and hygienic conditions through the provision of roads, drainage, street lighting, public latrines, community development programme, etc.

The sanitation component will benefit 6,500 families in the 6 towns in constructing their own individual latrines. The off-site infrastructure component will assist in the building of access roads as well as missing links of the by-pass roads in Bhilai. In addition, the municipal maintenance and solid waste management component would help the municipal

bodies in the 6 project towns to improve these two services by augmenting their equipment needs and proper management systems.

A total of Rs. 5.60 crores is allocated for the technical assistance component of the project which would be utilised for institutional and financial strengthening of the personnel and organisations of the Housing and Urban Development Agencies of Madhya Pradesh, HUDCO and Government of India.



POLICY IMPLICATION

The World Bank financed MP Urban Development Project, appears to be a better conceived project than the ISDMT project under implementation in the state. The World Bank project identified two urban conglomerations—Indore-Dewas-

Ujjain and Raipur-Bhilai-Durg which are displaying positive urban and industrial growth patterns in the state and conceived an integrated urban development strategy consisting of area development schemes, slum upgradation programmes, improvement in civic services and strengthening of the maintenance organisation. On the other hand, the IDSMT project as is being presently implemented, has an isolated and segregated approach where individual towns are being improved in a limited manner. It is true that the World Bank financed MP Urban Development project provided a substantially higher level of the investment in a concentrated area but it has to be recognised that there are no partial solution to the problems. Urban growth cannot be considered in isolation but has to be related to the general economic growth in the area. In the true sense it is an infrastructural development providing the basis for economic growth in various sectors like industry, commerce, etc. Viewed in this light, the process of urban development needs to be initiated or at least planned before economic activity catches up with it. It should be based on a system study of a region taking into consideration the behaviour of the society and investments in the various sectors including agriculture.

Unfortunately, such an approach is lacking at present. The sectoral approach to planning has led to investments in different sectors in watertight compartments without related investments in other sectors. It is common to see major industrial projects launched without any consideration for the problems of human settlements attracted by the industrial activity and by the secondary activities generated by it. Failure to plan and provide for in the initial stages results in unplanned growth and emergence of extensive slum areas which are later attempted to be corrected at prohibitive costs.

The Planning Commission has been reiterating the need for integrated planning and allocation of funds based on such planning. For achieving this, regional planning which during recent years, has emerged a sophisticated discipline will have to be accepted and institutionalized. It is only then that any meaningful impact on urbanization trends can be felt.

REFERENCES

1. Project reports of HUDCO—World Bank aided M.P. Urban Development Project:

   (a) Report on Urban Sector Data of Madhya Pradesh.
   (b) Assistance from WB for Development of Small and Medium Towns with Growth potential.

2. Provisional population tables, *Census of India*, 1981.

Annexure A

S. No.	*Name of the Region*	*Districts Included*	*Characteristics*
(1)	(2)	(3)	(4)
1.	Korba non-ferrous Mineral Region	1. Bilaspur 2. Raigarh 3. Sarguja 4. Shehdole 5. Sidhi	The region has huge deposits of Bauxite and coal.
2.	Indore, Agro-industries	1. Indore 2. Ujjain 3. Mandsaur 4. Ratlam 5. Dhar 6. Jhabua 7. Dewas	The cropping pattern is dominated by commercial crops like cotton and groundnut which can support agrobased industries.
3.	Narmada Tapti Region	1. Khandwa 2. Khargone 3. Hoshangabad	Rich agricultural region—likely to be benefitted by irrigation from Narmada and its tributaries. Hoshangabad — comes under Tawa Command area for the development of which finance from World Bank has been obtained.
4.	Bhilai Region	1. Raipur	The region has multiplicity of resources. Bhilai Steel Plant is located in the Centre.
5.	Bhopal Capital	1. Bhopal 2. Raisen 3. Vidisha 4. Shajapur 5. Sehore 6. Rajgarh 7. Guna	The region's economy is a predominantly agricultural one. It is the major wheat producing area of the state.

(1)	(2)	(3)	(4)
6.	Jabalpur Region	1. Jabalpur 2. Sagar 3. Damoch 4. Narsimpur 5. Mandla	The region has rich forest resources.
7.	Gwalior Agro-Region	1. Morena 2. Bhind 3. Shivpuri 4. Dattia	It is characterised by Heavy pressure on agricultural land. It includes Chambal command area, the development of which is being undertaken with the financial assistance of World Bank.
8.	Bundelkhand, Baghelkhand Region	1. Rewa 2. Satna 3. Chattarpur 4. Tikamgarh 5. Panna	The region is underdeveloped one. It has forest and mineral resources, particularly lime stone belt around Satna.
9.	Chindwara Mineral Resources Region	1. Chindwara 2. Balaghat 3. Betul 4. Seoni	The region has mineral deposits like Copper in Balaghat, Manganese and Coal in Chindwara. The region has good potential for thermal power station and mineral based industries.
10.	Bustar Tribal Region	1. Bustar	The region is dominated by tribal economy. It has forest and mineral resources. The doposits of "Beladial iron ore" are being exploited for export.

Annexure B

IDSMT SCHEME IN MADHYA PRADESH AS IN JULY 1984

(*Rs. in lakhs*)

S. No.	City/Town	Date of Sanction	Central Assistance Released 1979-80	1980-81	1981-82	1982-83	1983-84	Approved Outlay	State Sector Outlay
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Bilaspur	1.3.80	12.50	—	—	—	—	—	—
		15.3.80	6.00	—	—	—	—	106.00	742.66
2.	Khajuraho	15.3.80	5.00	—	—	—	—	10.67	11.92
3.	Dewas	25.3.80	12.00	—	—	—	—	—	—
		15.3.83	—	—	—	20.00	—	67.78	487.50
4.	Itarsi	27.11.80	—	29.00	—	—	—	91.89	646.76
5.	Rewa	26.2.81	—	6.00	—	—	—	81.01	514.43
6.	Katni	26.2.81	—	3.00	—	—	—	51.72	475.30
7.	Burhanpur	21.4.81	—	—	5.00	—	—	112.90	121.01
		27.3.82	—	—	24.00	—	—	—	—
8.	Morena	21.4.81	—	—	3.00	—	—	64.12	318.63
9.	Dongargarh	11.1.82	—	—	4.00	—	—	78.98	15.40
10.	Rajandgaon	11.1.82	—	—	5.00	—	—	82.57	40.34
		11.6.82	—	—	—	10.00	—	—	—
11.	Balaghat	11.1.82	—	—	15.00	—	—	107.26	57.96

(*Continued on next page*)

(*Continued from previous page*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
12.	Chindwara	29.3.82	—	—	—	—	—	—	59.32
		28.4.84	—	—	—	—	17.59	151.82	—
13.	Harda	11.6.82	—	—	—	15.00	—	101.06	18.10
14.	Waidhan	4.1.83	—	—	—	10.00	—	81.65	48.88
15.	Guna	11.7.83	—	—	—	—	—	84.75	66 83
		15.2.84	—	—	—	—	2.00	—	—
		26.3.84	—	—	—	—	12 00	—	—
16.	Sidhi	26.3.84	—	—	—	—	16.00	86.35	87.28
	TOTAL		35.50	38.00	56.00	55.00	47.59	1360.53	3712.32

Total Release (4+5+6+7+8) 232.09

Urban Finances: An Institutional Approach

*Nasser M. Munjee**

URBAN SERVICES

Urban governments clearly play an important role in the provision of urban services and they have a significant impact on city development. Rapid population growth in urban areas of the developing world leads to growing urban service deficits both in terms of maintaining services and extending them to unserviced areas. The prevalence of a large population at or below median income levels militates against raising adequate local finance for services provided.

To make matters worse, local governments are saddled with the weakest revenue instruments, (after the National government and the state governments have utilised their share) and also inadequate management expertise with which to operate highly complex operations. In other words, very often, urban authorities receive residual claims on fiscal budgets and the pool of skilled manpower to perform the major tasks of keeping city services functioning.

Virtually every urban government in India is required to provide at least a minimal range of basic urban services such as water supply, sanitation, solid waste disposal, roads, street lighting, fire fighting, sewerage, etc. Even these minimal services are not being presently performed efficiently.[1]

*Economist, HDFC, Bombay.

[1]Kalyan Biswas, *Urban Development Management: Tasks at the State level.*

URBAN EXPENDITURE

Local authority expenditures must be examined in terms of real per capita expenditure. Even though the latter may rise, it must be seen in the context of expenditure needs and whether they are sufficient to meet the existing service deficits. Often, rising expenditure reflects higher costs of maintaining existing services and not the expansion of services to meet growing needs. A preliminary study[2] indicates that overall, for selected cities in developing countries, including Ahmedabad, Bombay and Madras (which are shown in Table 1) the cities with the least buoyant expenditures (low reliance on borrowed funds and user charges, stagnant tax bases, etc.) also tend to have the highest proportion of spending going into current expenditures as opposed to new capital projects. Table 1 illustrates this for three cities in India.

TABLE 1

City	Year	Growth Population	*Total Local Expenditure* Growth Rate (current prices)	*Total Local Expenditure* Growth Rate (constant prices)	*Recurrent Local Expenditure* Growth Rate (current prices)	*Recurrent Local Expenditure* Share in Total Local Expenditure
Ahmedabad	1965-71	3.3	9.4	3.7	12.2	88.0
Bombay	1962-72	3.7	10.5	4.3	11.2	83.7
Madras	1971-76	3.7	4.3	8.8	9.2	74.0

Where local revenues are buoyant expenditures and services thrive; where revenues are difficult and stagnant expenditures tend to remain low.

URBAN REVENUES

The main sources of revenues for local authorities can be

[2]Johannes F. Linn, *Urban Finances in Developing Countries (World Bank)* Washington, DC IBRD, 1980.

basically listed as follows:

Internal

1. Local taxes (property tax and octroi),
2. User charges, and
3. Other charges (stamp duty, licences, etc.).

External

1. Borrowing, and
2. Grants

Local governments rely on certain traditional tax bases for their revenues, the most important of which are property taxes and octroi. Octroi which is an indirect tax has tended to thrive whereas property taxes being difficult to assess and upgrade have tended to remain stagnant.

Central grants and revenue sharing taxes are not the major component of state government financing—see Table 2. Loan financing has been a very small proportion of total revenues. Typically municipal revenue sources are as follows:

Tax Revenue	63.5%
Fees Property Income Income from Enterprises	23.6%
Grants	12.9%

Municipal authorities borrow only from their respective state governments. Their borrowing powers are defined in terms of: (*a*) the percentage of total annual rateable value, (*b*) the percentage of own domestic revenue, and (*c*) monetary ceilings. Under Central legislation—the local authorities Loan Act 1914—state governments can sanction market borrowing of Rs. 5,00,000 with a repayment period of thirty years (beyond this Central government approval is required). In the developed world, the largest capital outlays for urban infrastructure are typically financed by borrowing through the issue of municipal bonds. (This is made possible owing to highly developed capital markets and flexible regulatory frameworks which permit local authorities to borrow funds).

TABLE 2 DEVOLUTION OF RESOURCES FROM THE CENTRE TO THE STATE GOVERNMENTS

(*Rs. crores*)

Items	*1977-78 (Accounts)*	*1978-79 (Accounts)*	*1979-80 (Accounts)*	*1980-81 (Accounts)**	*1981-82 (Revised Estimates)*	*1982-83 (Budget Estimates)*
I. Share in Central Taxes and Statutory Grants recommended by Finance Commission	2,369.5	2,477.9	3,663.9	4,038.9	4,588.2	5,019.6
II. Plan Transfers†	2,468.3	3,611.3	2,964.0	4,031.5	4,126.5	4,498.0
III. Other Transfers‡	717.0	1,566.0	1,531.6	1,363.0	1,785.2	1,689.3
IV. Repayment of loans and interest payments to the centre	1,300.2	1,458.4	1,381.5	2,245.1	2,221.9	2,100.7
V. Net total Devolution (I+II+III—IV)	4,254.6	6,196.8 (5,645.8)	6,778.0	7,188.3	8,278.0	9,106 2
VI. Aggregate Receipts (including loans from the Centre on a net basis)	12,338.5	15,919.9 (15,368.9)	17,099.9	20,414.4	22,845.9	25,377.1
VII. V as percentage of VI	34.5	38.9 (36.7)	39.6	35.2	36.2	35.9

* The figures for Sikkim relate to revised estimates.

† Plan transfers include loans and grants sanctioned to state governments for State Plan Schemes, Central Plan Schemes and Centrally Sponsored Plan Schemes.

‡ Rest of the transfers include: (*i*) loans and grants sanctioned to states for natural calamities exclusive of those covered under the advance Plan assistance, under plan transfers; (*ii*) loans to State, against small savings collected; and (*iii*) ways and means advances and special loans sanctioned to the states.

NOTES: 1. Budget estimates for 1982-83 include the net estimated yield of Rs. 305.7 crores from additional resource mobilisation measures introduced through the State Budgets and the States' share of Rs. 53.4 crores in the Centre's additional taxation.

2. Figures in brackets exclude the Special Central loan aggregating Rs. 551 crores granted by the Centre to the states to clear overdrafts in 1978.

In India the Central government and Reserve Bank of India control and limit the extent to which state governments may borrow. This arises as a result of the concern for the national allocation of public and private savings.

Of a total government outlay in 1982-83 of Rs. 49,000 crores, current revenues were Rs. 36,000 crores and borrowings about Rs. 12,000 crores. (The revised estimate for 1982-83 indicates Market loans (net) at Rs. 3,800 crores, External borrowings (net) at Rs. 1,400 crores and others at Rs. 7,800 crores). While the Central government finances nearly 25 per cent of its outlay through borrowings, the State Governments, of total disbursements of 26,000 crores, utilised only 550 crores through market borrowing and relied for Rs. 3,500 crores as loans from the Central government. (See Table 3).

Although borrowings by the states has shown an increase from Rs. 317 crores in 1980-81 to Rs. 555 crores in 1981-82, the states share in net total market borrowings (central and state) remains around 10.3 per cent. The Centre is still heavily dominant as far as borrowed resources are concerned.

Table 3 shows the Overall Budgetary Position of state governments and Table 4 the extent to which state governments and their institutions have made use of borrowings. The state's share in net total market borrowings (Centre as well as states) rose to 10.3 per cent in 1981-82 from 7.2 per cent in 1980-81. The recovery of loans and advances granted by the states also improved considerably over the same period.

Loan financing is a very small proportion of state government finances; this is not an unusual tendency in developing countries. Loan financing in general is the smallest source of finance contributing on average only 5.7 per cent.[3]

In developed countries, larger capital outlays are typically financed from borrowing due to highly developed capital markets and flexible regulations. It may be well to note that in India some state governments themselves have relied on overdrafts to fund their budget deficits which have been largely on their capital accounts. The Reserve Bank of India makes the following caustic remark: "It is evident that these

[3]Johannes F. Linn, *op. cit.*

TABLE 3 OVERALL BUDGETARY POSITION OF STATE GOVERNMENTS

(*Rs. crores*)

Items	*1980-81 Accounts*	*1981-82 (Budget Estimates)*		*1981-82 (Revised Estimates)*		*1982-83 (Budget Estimates)*	
	Amount	*Amount*	*Percentage variation over the previous year*	*Amount*	*Percentage variation over the previous year*	*Amount*	*Percentage variation over the previous year*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I. Aggregate Receipts (A+B)	21,873	21,904	+ 0.1	24,222	+10.7	26,461	+ 9.2
A. Revenue Receipts (1+2)	16,293	16,914	+ 3.8	18,319	+12.4	20,569	+12.3
1. Tax Receipts (a+b)	10,405	11,490	+10.4	12,361	+18.8	14,136	+14.4
(*a*) States' Taxes	6,616	7,514	+13.6	8,070	+22.0	9,425	+16.8
(*b*) Share in Central Taxes	3,789	3,976	+ 4.9	4,291	+13.2	4,711	+ 9.8
2. Non-Tax Receipts (c+d)	5,888	5,424	— 7.9	5,958	+ 1.2	6,433	+ 8.0
(*c*) Grants from the Centre	2,622	2,470	— 5.8	2,782	+ 6.1	3,030	+ 8.9
(*d*) Other Non-Tax Receipts	3,266	2,954	— 9.6	3,176	— 2.8	3,403	+ 7.1
B. Capital Receipts (1+2)	5,580	4,990	—10.6	5,903	+ 5.8	5,892	— 0.2
1. States' Capital Receipts	2,558	2,111	—17.5	2,477	— 3.2	2,427	— 2.0

(*Continued*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Of which:							
(*a*) Market Borrowings (Gross)	317	496	+56.5	555	+75.1	555	—
(*b*) Recovery of Loans and Advances	449	587	+30.7	611	+36.1	614	+ 0.5
2. Loans from the Centre (Gross)	3,022	2,879	— 4.7	3,426	+13.4	3,465	+ 1.1
I. Aggregate Disbursements (A to E)	22,770	22,191	— 2.5	24,873	+ 9.2	26,482	+ 6.5
A. Developmental Expenditure* (1+2)	15,961	16,064	+ 0.6	17,884	+12.0	18,945	+ 5.9
1. Social Community Services	6,601	6,766	+ 2.5	7,611	+15.3	8,209	+ 7.9
Of which:							
Expenditure on Natural Calamities	277	109		211		119	
2. Economic Services	9,360	9,298	— 0.7	10,273	+ 9.8	10,736	+ 4.5
B. Non-Developmental Expenditure*	4,289	4,749	+10.7	5,094	+18.8	5,954	+16.9
C. Repayment of Loans to the Centre	1,458	918	—37.0	1,376	— 5.6	1,083	—21.3
D. Discharge of Internal Debt	178	233	+30.9	234	+31.5	229	— 2.1
Of which:							
Market Loans	119	175	+47.1	175	+47.1	164	— 6.3
E. Others†	884	227	—74.3	285	—67.8	271	— 4.9
I. Overall Surplus (+) or Deficit (—) (I—II)	—897	—287		— 651		—21	

*Comprise Expenditure on Revenue and Capital accounts and Loans and Advances extended by States.

† Comprise compensation and assignments to local bodies, appropriation for contingency fund and remittances (net).

NOTES:

1. Budget Estimates for 1982-83 include the estimated net yield of Rs. 306 crores from additional resource mobilisation measures introduced through the State Budgets and the States' Share of Rs. 53 crores in the Centre's additional taxation measures introduced through the Central Budget for 1982-83.
2. Budget Estimates for 1981-82 include estimated yield of Rs. 300 crores from additional resource mobilisation measures introduced through the States' Budgets and are adjusted for the estimated decline of Rs. 75 crores in the States' share in the Central Taxes due to tax concessions announced in the Central Budget for 1981-82.
3. Figures given here differ from those given in the Bank's Annual Report for 1981-82 due to updating of data.
4. Figures for Sikkim relate to revised estimates.

TABLE 4 BORROWINGS BY STATE GOVERNMENTS AND THEIR INSTITUTIONS

(*Rs. in crores*)

Items	*1980-81 (Accounts)**	*1981-82 (Revised Estimates)*	*1982-83 (Budget Estimates)*
I. Internal Debt (Net) (i to iv)	152.3	515.7	533.3
(*i*) Market Loans (Net)	183.7	364.9	395.9
(*ii*) Ways and Means Advances (including Overdrafts) from the Reserve Bank of India (Net)	—340.7	8 8	73.5
(*iii*) Loans from SBI and other Banks (Net)	104.0	28.9	—33.7
(*iv*) Loans from other institutions (Net)	205.3	113.1	97.6
II. Loans and Advances from the Central Government (Net)	1,566.6	2,050.3	2,164.4
III. Provident Funds, etc. (Net)	340.2	482.3	543.0
Of which:			
State Provident Funds (Net)	281.3	422.8	472.1
IV. Total Debt (I+II+III)	2,059.1	3,048.3	3,240.7
V. Market Loans raised by State Electricity Boards (Net)	298.1	389.3	N.A.
VI. Market Loans raised by State Road Transport Corporations, Housing Boards, Municipal Corporations and Others (Net)	77.8	60.9	N.A.
VII. Market Loans raised by financial institutions of State Governments (SFCs) (Net)	35.2	64.1	N.A.
VIII. Total (V+VI+VII)	411.1	514.3	N.A.

N.A.=Not Available
*Figures for Sikkim relate to revised estimates.

overdrafts arise not primarily due to exigencies of short term finance to cover the normal lag between expenditures and collections of revenue but is looked upon by the states as an additional source of financing their expenditures."

THE URBAN FISCAL GAP

The Urban Fiscal Gap is the difference between the perceived need for urban services and the resources with which to carry them out. There are several ways in which this gap may be viewed.

(*i*) The desired level of services may be a point beyond the physical production frontier, *i.e.*, beyond the resources available to the urban economy. Local authorities can simply do the best they can under these circumstances for the few who can benefit from the services or they could spread resources more thinly to a greater number of people (albeit reducing the quality of services provided).

(*ii*) Expenditure sources and Revenue sources are functions of different variables. Expenditures needs grow with population (especially if one subscribes to minimum needs requirements), with higher costs of providing services, etc. While Revenue needs of urban government do not increase commensurately due to inelastic tax bases, services not readily susceptible to user charges (free rider problems may also operate). In other words there is a serious mismatch of revenue authority and expenditure responsibility.

The current situation is such that the Urban fiscal gap is widening. The Zakaria Committee which examined the level of services and the financial implications of maintaining them at an acceptable level recommended that municipalities spending less than a prescribed norm needed to be supported to bring them up to accepted standards.

Since independence, however, there has been little devolution of funds from non-plan expenditure to local bodies. One of the key objectives of government policy is to provide for a reasonable upgradation of civic amenities especially in small and medium size towns and cities to arrest the rapid migration rate to large metropolitan centres. It is precisely these small municipal corporations that are badly hit in terms of revenue raising capacity.

In a recent study by the National Institute of Urban Affairs the main reasons for the inability of local bodies was identified as:

(*i*) Poor financial management.
(*ii*) Poor collection systems whereby only 40 to 50 per cent of municipal dues are actually collected. (The dues themselves being grossly under-determined).
(*iii*) Service charges being much lower than the actual cost of service provision, *i.e.*, a case for more effective use of user charges to cover the costs of their provision.
(*iv*) A fall in municipal revenues due largely to abolition of octroi in many states and the inability of state governments to make up the revenue loss through allocations.

The study also found that in addition to a deteriorating financial condition of local bodies, the quality of existing local civic services had deteriorated sharply largely due to points (*i*) to (*iv*) above.

Local Bodies appear, then, to suffer severely on the revenue side of their balance sheets while at the same time they are expected to play a vital role in the urban development process.

To summarise, Local bodies in India suffer from a deteriorating revenue base at the local level, they are outside statutory devolution of funds, they are wholly dependent on state government largesse (conspicuous by its absence) to support their activities and they have been deprived of plan allocations. In terms of expenditure requirements, the study estimates that an additional expenditure of Rs. 303 crores by 2360 local bodies on existing civic services would be required and a further Rs. 530 crores as capital expenditure to take care of depreciation and obsolescence. This would mean that an annual devolution of Rs. 833 crores would be required from Central funds to states for the maintenance and upgradation of local services.

The Mohan-Acharya estimates[4] indicate that under two

[4]Investment Requirements for Urban Infrastructure—Rough Estimates for 1981-2001.

sets of assumptions a low/high per capita expenditure on urban services would be in the range of Rs. 740 and Rs. 1450 (this ignores industrial and commercial infrastructure). Taking account of projected increases in urban population with an allowance for backlog elimination and depreciation, their estimates of total investment requirements indicate a low/high range of Rs. 4918/Rs. 8053 crores for the period 1981-86 or taking an average value of Rs. 6,486 crores which would be about Rs. 1,300 crores per annum for the sixth five year plan period 1981-86 and Rs. 1,500 crores per annum in the seventh Five Year Plan period. These numbers are higher than the estimate of the National Institute of Urban Affairs but they do suggest an order of magnitude that is well within the investment capabilities of the Centre, State and local bodies taken together.

FISCAL REFORM

The salient features of Fiscal Reform are:

(*a*) Any reform of the system must clearly try and bridge the gap between revenue authority and expenditure responsibility given urban service requirements. Methods need to be found to make revenues more elastic with respect to expenditure on services (user charges, recovery of costs, etc.) and secondly to generate a delivery system for the efficient production and maintenance of urban services. Low recovery levels of about 40 per cent of municipal dues need to be enhanced to at least 75 per cent of dues. Estimates of dues being also appropriately revised upwards to take into account the enhanced costs of service provision. (A striking example in this context is Bombay in that about 5 million slum dwellers contribute about Rs. 80 lacs in a city of 8 million with a budget of Rs. 540 crores. At the same time, these same slum dwellers contribute crores to local toughs for illegal occupation and protection money).

(*b*) If present local institutions cannot assume the responsibility for the entire range of services to be provided,

it is sometimes argued that some of these could be devolved to the Centre. This would not be an advisable direction to take as local institutions would become less responsive to local needs. Further, local projects have to be designed to be within the maintenance capacity of local institutions failing which services will not be maintained adequately.

(*c*) At present, capital expenditures of local bodies are financed out of: (*i*) own resources (which tend to be inelastic), and (*ii*) Plan funds (theoretically). The disadvantage of the latter tends to be the long time delays required to get projects approved at the state level to be included in plan outlays and the manner in which the funds are finally disbursed through state governments and state agencies. Local bodies get too little too late for effective project implementation. Dynamic local bodies who have the capacity to undertake new projects with financial support are seriously constrained in their efforts to improve services. On the other hand there are local bodies that have substantial surplus funds (mainly invested in bank deposits) and lack the initiative or the capacity to undertake new programmes or to invest their funds effectively.

(*d*) On revenue account local bodies need to examine areas in which effective recovery systems can be implemented. This might be achieved through user charges, property taxes and octroi.

User charges could be used effectively in:

(*i*) water delivery systems,
(*ii*) sewerage,
(*iii*) solid waste disposal,
(*iv*) transport,
(*v*) highways,
(*vi*) mainline bridges, and
(*vii*) shelter and urban renewal.

Effective cost recovery systems combined with grants and subsidies for certain intractable areas would push

local bodies towards an ethos of self financing. (Accounting systems, and Management being suitably improved). This would prepare the local body system to receive external funding from both domestic and international resources.

(*e*) Another method of covering the direct costs of service provision is by internalising the cost when public and private lands are developed for residential or commercial use. Street lights, roads, drainage, water supply are part of the costs of the project in terms of land development costs or on site infrastructure. These services plug into the distribution system or the offsite infrastructure. Infrastructure investments wherever possible ought to be internalised as direct project costs.

(*f*) In the current system there is a strong dependence on the centre for financial allocations and loans. It seems that this will not be easily devolved. While local resource raising initiatives are desirable in the long run, in the more immediate term it seems that dependence on the centre will continue. Initially at least, a strong central agency which functions as a financial intermediary specifically for the needs of local bodies could be the most appropriate first step on the road to making local bodies as self financing as possible.

This is examined in detail in Part II.

PART II

A PRELIMINARY PROPOSAL FOR AN URBAN FINANCIAL INSTITUTION

In India the use of development banks to finance development oriented sectors in the national economy has proved to be extremely successful. These banks, by providing expertise as well as financial resources to a particular sector, encourage financial deepening of the economy. Various institutions serving the rural development programmes have now been subsumed under NABARD; the industrial sector

is served by IDBI, IFCI and ICICI, the housing sector by HUDCO and HDFC. The Governor of the RBI has focused attention on the need for an infrastructure bank to deal with power and transport. Similarly there is a need for a specialist facility to deal with the emerging urban problems that India will face in the last decade of the 20th century and beyond.

The question is not whether there is an existing institution that can take over this role. The *raison d'etre* of an institution of this type is not simply one of a financial intermediary serving that sector: it is much more. Its initial role is a path breaking one; it needs to chart a course for the solution of emergent problems, to set a style and system, an overall approach to the specific problems faced by that sector countrywide. In order to do this, it needs to study the overall problems and examine various strategies with which to overcome the most serious obstacles.

There are enough studies on urbanisation in the country to indicate that India is urbanising at a fairly rapid rate, though the rate of urbanisation may not seem to be extraordinary its level in absolute terms is enormous. The question that needs to be asked is: Can the problem of urbanisation be left to local authorities and state governments to solve as they deem fit or is there a need for a central institution to coordinate efforts both at home and with international institutions that are heavily involved with the problems of urbanisation? Secondly, one needs to ask how best existing resources can be utilised efficiently, how fiscal bases can help fund lumpy investments so typical in local authority activities.

As indicated earlier the key problem for local authorities is a fiscal gap between rising expenditures and inelastic tax revenues compounded by a growing demand for urban services. Resource mobilisation at the local level thus emerges as a key issue.

There could be structural (internal) problems that constrain resource mobilisation efforts of local bodies: problems such as poor recovery procedures for services, collection systems for taxes and charges revaluation of rates and property taxes. These constraints would operate even if the local authority had access to internal finances. It would, therefore, be prudent to undertake a fresh look at local authorities and

examine their existing capacities to raise revenues and optimise on their resource raising capabilities.

Municipal Development Institutions (MDIs) are not a new phenomenon. They have been in existence for over a hundred years. They first emerged in Europe and have grown ever since. In the US as recently as 1969 was there a proposal to create an urban development bank and a municipal bond guarantee corporation. These were never established due to the complexities of the already functioning municipal bond market and the tax provisions thereon. The more developed a country the more developed is its capital market and its institutions. The history and evolution of financial institutions indicates that progress comes in diversity not in concentration. Institutions need to emerge and grow to fulfil different needs. This growth itself contributes to the development of a capital market with its concomitant variety of financial instruments and its adaptability to the sensitivities of the market place. (A list of various MIDs is given in Annexure I).

Only recently has the financial intermediation process been recognised in the LDC context. The finance development could be enhanced not only by increasing the real resources saved for investment but also by improving the effectiveness of the financial system whereby a part of total resources are efficiently channelled to desirable investments. Financial intermediaries that can effectively channel idle resources towards developmental goals is tentamount to raising the quantity and quality of investment and hence development.

CENTRAL INSTITUTION

One of the features of development banking is the need to set out from the Centre and move to the states. In the initial years a central institution can pave the way for its future activities by preparing its *modus operandi* and by obtaining the necessary legal, fiscal and financial prerequisite for successful operations. As India's capital market is highly centralised, the new institution would have to begin life at the centre, *i.e.*, in New Delhi or in Bombay as a National level

institution. For simplicity the new institution will henceforth be referred to as UFI—Urban Finance Institution.

CAPITALIZATION AND OWNERSHIP

Today, Development Institutions have built up considerable financial strength after many years of development financing and have been hesitant to get involved in a wider developmental role. Industrial, Agricultural and Housing Institutions all operate in areas where infrastructural facilities are crucial for orderly development. Nevertheless, infrastructure is rarely directly financed. There is a good case for these institutions to get actively involved with financing these facilities and one effective method would be to support a UFI. They would be promoting a new type of development bank as well as promoting a new type of activity which is vital in all areas of development policy.

The Reserve Bank of India, supported by other development banks could take the lead in promoting a new development bank for municipal development.

Equity could be enhanced in time with state governments and local authorities taking an active part in UFI's operations. A strong central presence with an eminent Board of Directors and an autonomous operating policy would give UFI a solidity and professionalism while at the same time steering away from political issues. The central government could support an UFI through fiscal incentives, guarantees and other incentives rather than direct budgetary support. UFI would be professionally managed.

A fully established, professionally managed institution for urban finances would build up a major pool of expertise on the problems of urban finances in the country. It would help to collate information which could then be utilised for a reform of local authority finances at the State and Federal level. By supporting local authorities in their management and funding problems the corporation would begin a process by which local institutions are strengthened and made ready for a greater sophistication in infrastructure service planning, financing and implementation.

International expertise could also be invited through the

Corporation to help structure the system. A central agency such as the proposed corporation once approves, a project, it will be able to examine the syndicate financing possibilities by involving other financial institutions both at home and abroad. The World Bank, for example, requires an institution through which it can coordinate its huge proposal for Madhya Pradesh. The state government is therefore proposing the establishment of a State Madhya Pradesh Urban Finance Corporation. Unfortunately institutions set up in this way become channelling agencies rather than development institutions with broader based capabilities.[5] A corporation such as the one here proposed would be able to undertake this function and would also be able to identify and prepare entire projects which could then be submitted as proposals for joint financing.

A specialist development institution has significant advantages over public sector administration. It acquires expertise in the field in which it is involved and it also acquires the financial resources with which to sponsor research and development activities and progress without relying on the government budget. For example, urban finance and urban development issues are not even offered as major areas of university research and training. An institution of this type could take the initiative of sponsoring professional chairs and funding urban research departments so that the country can build up a pool of trained and professonal manpower over the years for employment as future urban managers.

To summarize, the main overall benefits of an institution such as UFI, could be listed as follows:

1. Increase in the supply of capital that is made accessible to local authorities to finance local services.
2. Long-term reduction in the cost of capital as the intermediary would issue appropriate financial instruments and tap various sources of finance efficiently.
3. Important management feedback to local authorities

[5]"What has evolved in Gujarat and Kerala through statutory bodies is merely yet another channel through which funds can be made available by Government to the local bodies." NIUA.

to improve their management procedures—financial and non-financial. In addition, the introduction of modern accounting systems.

4. Streamlining revenue raising procedures, update tax bases, introduce user charges wherever feasible, cut wasteful subsidies, encourage self financing.
5. UFI would act as an *alternative* source of funds to the smaller and medium size local authorities that are dynamic and operationally sound. Others would also aspire to a similar status and UFI would possibly be able to aid them in their endeavours.
6. UFI would encourage joint sector financing by participating in both public and private sector projects to promote local urban services. It could also support activities like leasing operations specifically targeted to local authorities (*i.e.*, local authorities might find it more feasible to lease, on a long term basis, the equipment it requires rather than make immediate capital outlays in attempting to purchase it.

It is important to note that UFI will not be *replacing* existing sources of funding to local bodies. It would be supplementing them and at the same time providing local authorities with advisory services to rationalise and modernise municipal systems and administration. In other words, UFI will help strengthen the resource base of local bodies so that external financing becomes a real alternative to traditional sources of revenue.

UFI would not be an institution designed to channel funds to local authorities. The task of UFI would be to sustain a flow of finance to local authorities by mobilising additional resources for urban infrastructure financing as well as making local authorities structured to receive loan finance and to service this debt. The relationship would be a creditor/debtor one and not a grantor/grantee. The financial relationship would necessitate a re-examination of the structure of local bodies.

Finally the fundamental criteria that would need to be applied to the decision making process would be whether the emergence of such an institution would not only sustain (and

enhance) the flow of finances to local bodies but would also improve the nature and type of financial relationship existing between the central government and local bodies.

This paper has argued that this certainly would be the case.

Annexure I

A LIST OF MUNICIPAL DEVELOPMENT FINANCIAL INSTITUTIONS*

	Name and Country of Institution	*Date Formed*
1.	Deposit and Consignment Bank of *France*	1799
2.	Public Works Loan Board of UK	1817
3.	Real Estate Corporation of *France* (Credit Fanciere France)	1852
4.	The Municipal Credit Bank of *Belgium*	1860
5.	The Deposit and Credit Bank of *Italy*	1863
6.	General Deposit, Credit and Provident Bank of *Portugal*	1876
7.	The Municipal Credit Association in *Denmark*	1899
8.	The Central Savings Bank of the Municipality of Vienna in *Austria*	1905
9.	General Deposit, Credit and Provident Bank of *Germany*	1909
10.	The Municipal Credit Bank, predecessor of the present Bank for *Netherlands* Municipalities	1914
11.	The Bank for Local Credit in *Spain*	1925
12.	The Municipal Bank of *Norway*	1926
13.	The Municipal Pension Fund in *Denmark*	1929
14.	The Provinces Bank of *Turkey*	1945
15.	The Loan and Consignment Fund in *Greece*	1945
16.	The *Norwegian* Municipal Pension Fund	1949
17.	The Local Government Loans Authority in *Kenya*	1953
18.	The Bank for Israeli Local Authorities	1954
19.	The *Austrian* Municipal Credit Company for the Development of Industrial Sites	1959
20.	The Autonomous Municipal Bank of *Honduras*	1961
21.	The Local Development Bank of *Indonesia*	1962
22.	The Municipal Credit Corporation in *Sweden*	1962
23.	The Foundation of Community and Municipal Development in *Venezuela*	1962 1962
24.	Institute of Municipal Assistance and Development (IFAM) in *Costa Rica*	1970

25.	Municipal Development Institute (IDM) of *Paraguay*	1971
26.	Fonds Special d'Equipement et d'Intervention Intercommunale in *Cameroon*	1974
27.	Caisse de Prets et de Soutiens de Collectivites Locales (CPSCL) in *Tunisia*	1975

*SOURCE: *Mainly Credit Institutions for Local Authorities*, UN, New York, 1972, pp. 16-18.
Taken from Municipal Development Banks and related Financial Intermediaries—Catalysts for Resource Mobilisation and Development in LDCS (Part I) Laurence Clark, Urban Division, World Bank.

Annexure II

LIFE INSURANCE CORPORATION

TABLE 1 LOANS ADVANCED TO VARIOUS AUTHORITIES

(Rupees in Crores)

Authorities	*Amount Advanced during 1981-82*	
Electricity		
(*i*) State Electricity Boards		153.98
Housing		
(*ii*) State Governments for Housing Schemes	36.40	
(*iii*) Apex Cooperative Housing Finance Societies	73.00	109.40
Water Supply and Sewerage		
(*iv*) Municipal Committees and other Local Bodies for Urban Water Supply and Sewerage Schemes	50.69	
(*v*) Zilla Parishads and other Local Bodies for Rural Piped Water Supply Schemes	5.97	56.66
Transport		
(*vi*) State Road Transport Corporations		24.86
Industrial Development		
(*vii*) Industrial Estates	3.01	
(*viii*) Sugar Cooperative Societies	0.69	
(*ix*) Joint Stock Companies (including Loans to Public Sector Companies)	166.78	170.48
TOTAL		515.38

Annexure III

LIFE INSURANCE CORPORATION

TABLE 2 LOANS ADVANCED AND OUTSTANDING

(*Rupees in crores*)

Authority	*Amount*	
	Advanced upto 31st March, 1982	*Outstanding as on 31st March, 1982*
(*i*) State Electricity Boards	1,200.56	865.35
(*ii*) State Government for Housing Schemes	433.43	318.87
(*iii*) Apex Cooperative Housing Finance Societies and other Authorities for financing Housing Cooperatives and to State Housing Boards	609.87	456.05
(*iv*) Municipal Committees in various States and to State Governments for Urban Water Supply Schemes	372.76	316.48
(*v*) Zilla Parishads in various States for Rural Piped Water Supply Schemes	45.89	39.92
(*vi*) State Road Transport Corporations	83.16	75.54
(*vii*) Sugar Cooperative Societies	36.83	25.79
(*viii*) Cooperative Spinning Mills	0.30	0 04
(*ix*) Industrial Estates	23.64	19.04
(*x*) Joint Stock Companies	461.07	347.47
(*xi*) Development Authority—Nagaland	1.44	1.44
TOTAL	3,268.95	2,465.99

*Kerala Urban Development Finance Corporation**

P.A. Varghese†

"Studies on Municipal Finance tell us the familiar story of an ever widening gap between needs and resource."[1]

"Rapid urbanisation coupled with changes in technology, was altering the nature of problems, urban local government units were called upon to solve. Urbanisation was influencing the direction of educational policies, the services that local government units would be required to provide, the financial resources they would have to develop for the purpose and a host other factors in local administration."[2] Population in cities of almost all developing countries is growing at a spectacular rate. The local resources assume particular importance in the context of the very substantial investments that would be required by the authorities to take care of the rapidly growing demands of urban population for adequate living facilities.[3] In this respect the revenues of the municipal bodies are mainly derived from the tax and non-tax revenues. Unfortunately in most of the cases the needs of municipal bodies are never met with by the income. This issue has been exhaustively studied by several committees. In Kerala the revenuegap for urban local bodies has been calculated in Toble 1.

*This paper has not been presented in the seminar. It is received subsequently.

†Director, Municipal Administration, Government of Kerala, Trivandrum.

[1]Mohit Bhattacharya, *Essays in Urban Government*; World Press, Calcutta, 1970. pp. 159.

[2]*Local Government Reform: An Analysis of Experience in Selected Countries*, UN Department of Economic and Social Affairs, New York, 1977, p. 5.

[3]Bhargava (ed.), *Urban Problems and Policy Perspectives*, New Delhi, Abhinav, 1981.

TABLE 1 REVENUE GAP OF URBAN LOCAL BODIES IN KERALA/PER YEAR

Year	*Rs. in crores*	*Committee*
1960-61	3.19	Zakaria Committee[4]
1974-75	9.81	Municipal Finance Commission[5]
1979-80	27.34	NIUA Study[6]

Given the financial 'mis-gap' municipal bodies unlike Central and state governments do not resolve to public borrowing. This is because of the devolution of their power from the statutes of the state government and that guarantee for a borrowing is to be done by the state government, to the lending agency to deal with municipal bodies in particular. Municipalities in their nature also do not go to the money market and borrow. To solve this problem the idea of a central agency to mobilise funds and then to distribute to local bodies was mooted by several committees.

GENESIS

The incorporation of Kerala Urban Development Finance Corporation Limited under the Indian Companies Act was a bold decision taken by the Government of Kerala in order to provide financial assistance to Urban Local Bodies for undertaking development schemes. The Rural Urban Relationship Committee set up by the Government of India in 1966 recommended in its report for the creation of a Finance Commission at the state level for solving financial problems of urban local bodies. The Taxation Enquiry Committee constituted by the Government of Kerala in 1968 suggested the

[4]Report of the Committee of Ministers constituted by the Central Council of Local Self Government. Augmentation of the Financial Resources of Urban Local Bodies.

[5]*Report of the Municipal Finance Commission*, Government of Kerala, 1976.

[6]*The Study of Financial Resources of Urban Local Bodies in India and Level of Services Provided*, The National Institute of Urban Affairs, New Delhi, 1983.

creation of Central Financial Agency for extending financia assistance, by way of loans and advances to urban local bodies. In 1969, Government of Kerala convened a conference of heads of departments and senior officials of urban local administration. The committee recommended for incorporation of a limited company under the Companies Act, 1956 for the purpose of giving financial assistance, technical assistance and assistance to improve administrative machinery of urban local bodies. The government accepted the recommendation and a government owned private limited company with the name Kerala Urban Development Finance Corporation Limited was incorporated on January 28, 1970 with an authorised share capital of Rs. 1 crore. The company was subsequently converted into a public limited company, with its headquarters at Calicut.

FEATURE

Kerala Urban Development Finance Corporation is the first of its kind in India. The modern concept of institutional finance was translated into action in the field of urban development by this corporation and opened new horizons for Urban development activities in Kerala. Assam, Orissa, Andhra Pradesh, Haryana, Bihar, Madhya Pradesh, Rajasthan, Karnataka, Goa, Daman and Diu, West Bengal, Punjab and Tamil Nadu are some of the state governments which sought information about Kerala Urban Development Finance Corporation for purpose of creating similar Companies in their respective states.

AIMS AND OBJECTIVES

The main objectives for which the company was incorporated are:

(*i*) To provide financial assistance by way of loans and advances to urban local bodies in the state for their development schemes.

(*ii*) To provide technical or any other assistance and guidance to urban local bodies in the matter of their

development schemes including the Master Plans prepared for the urban local bodies;

(*iii*) To provide assistance and guidance to urban local bodies for improving their administrative machinery and procedure.

(*iv*) To undertake the schemes in collaboration with the urban local bodies; or with public undertakings on such terms and conditions as the company may deem fit.

To promote and operate the schemes for urban development, to employ experts, to investigate and prepare schemes for urban development, to receive loans, advances, grants and other moneys from central government, state government, local bodies, companies, etc., are some of the objects incidental or ancillary to the main objects of the company. To undertake commercial or other activities to establish training institutions, to act as agent of the Government of India or state government or authorities and to transact and carry on any business of any kind or description are the other objectives of the company.

DIRECTORS

1. The Commissioner and Secretary, Local Administration and Social Welfare Department, Government of Kerala.	(*Ex Officio*)	*Chairman*
2. The Chairman, Trivandrum Development Authority.	-do-	*Director*
3. The Chief Engineer, Local Bodies Engineering Wing, Government of Kerala.	-do-	-do-
4. The Chief Town Planner, Government of Kerala.	-do-	-do-
5. The Deputy Secretary, Finance Department, Government of Kerala.	-do-	-do-
6. The Director of Municipal Administration, Government of Kerala.	-do-	*Managing Director*

The posts of directors representing one of the mayors of the cities of Trivandrum, Cochin and Calicut and the Chairman, Chamber of Municipal Chairmen are vacant as the election to the urban local bodies is yet to be held.

FINANCE

This corporation has an authorised capital of Rs. 1 crore. The paid up capital as on December 31, 1984 is Rs. 48,36,100 being the value of 48,361 equity shares of Rs. 100 each.

Government of Kerala holds shares worth Rs. 24,85,100 being the value of 24,851 shares, the rest are held by the Urban Local Bodies in the state, *viz.*, 3 Municipal Corporations, 42 Muncipalities and 3 Development Authorities and 1 Township.

The borrowed capital as on December 31, 1984 is Rs. 1,530 lakhs, which was raised by floatation of debentures during the past fourteen years with the permission of Reserve Bank of India and on the guarantee of Government of Kerala. The quantum of open market borrowing was at the rate of Rs. 110 lakhs every years except in 1970-71, 1974-75, 1982-83 and 1984-85 during which the borrowings were to the tune of Rs. 50 lakhs, Rs. 82.5 lakhs, Rs. 165 lakhs, Rs. 220 lakhs and Rs. 275 lakhs respectively.

Mobilising deposits from civic bodies is a point which is found to be of little practical utility. The need gap with regards to the urban local bodies in Kerala has always been high, and therefore the amount available with the local bodies to spare may be very marginal if not nil. It is also noteworthy that the funds of the urban local bodies are in government treasury and government with its ways and means position not being very strong will be reluctant to allow the local bodies to invest their funds in any other manner.

LOAN SANCTION

There is no discrimination with regards to minor and major civic bodies in respect of sanctioning loans. Neither there is any differential rates of interest. It is mostly consideration of

project viability and financial discipline of the urban local body which counts for sanctioning schemes.

Before sanctioning the loan, the corporation evaluates the economic viability of the proposed scheme on the one hand, and also looks into the financial position of the urban local body with particular reference to its financial management and performance over past three years. Alongwith the application the local body has to forward a layout and sketch design of the scheme proposed and statement of cost of the scheme estimated by the Chief Town Planner. Rendering financial assistance for schemes, the Corporation follows the following order of priority:

1. Remunerative schemes.
2. Partly remunerative schemes.
3. Conversion of scavenging type latrines into sanitary type latrines.
4. Providing water connection to houses.
5. Non-remunerative schemes aimed at area development.

Financial viability of the scheme is considered when processing schemes under items 1 and 2. For items 3 and 4 such consideration is not required. But a local body has to state how to recover the loans from the beneficiaries. Non-remunerative schemes were approved only for 3rd grade municipalities. The scheme for improvement of roads are considered by the corporation with schematic report town map showing the roads to be improved, alignment of roads proposed to be improved, approval of Chief Town Planner for alignment of the road, Annual Financial Statement for the last 3 years and estimates of cost of works. The loans for such scheme are limited to 2/3 of the cost of the scheme. The Municipality which proposes to take up non-remunerative scheme should undertake at least one remunerative scheme for augmenting its resources.

The corporation has prescribed following general conditions for approval of schemes for financial assistance:

1. That the municipal corporation and first grade municipalities shall meet 25 per cent of the cost of each pro-

ject sponsored by them as margin money. In exceptional cases this condition may be waived.

2. That approval once accorded for a scheme will lapse after two years if the scheme is not implemented.
3. That the urban local bodies shall undertake to meet over-run if any in the project cost from their own resources.
4. That no grace period shall be allowed to start repayment of principal in instalments in respect of loan given for non-remunerative schemes.

FINANCIAL ASSISTANCE

During the last 14 years this Corporation could disburse loans totalling Rs. 24 crores to 47 urban local bodies in the state for implementation of urban development schemes which can be classified as remunerative schemes, partly remunerative schemes and non-remunerative schemes. The financial assistance so far extended for implementation of schemes are briefly analysed hereunder (upto 3-12-1984).

TABLE 2 KERALA URBAN DEVELOPMENT FINANCE CORPORATION—LOANS UPTO 1984

	No. of Urban local bodies	*No. of Schemes*	*Remunerative Schemes Rs.*	*Non-remunerative Schemes Rs.*
1. Development Authorities	3	27	5,65,88,112	—
2. Corporations	3	45	3,82,90,352	51,50,000
3. I Grade Municipalities	8	95	5,75,27,783	28,65,681
4. II Grade Municipalities	10	91	3.44,55,186	22,19,294
5. III Grade Municipalities	25	103	4,11,05,998	25,57,250
		361	22,79,67,431	1,27,92,225

TECHNICAL ASSISTANCE

One of the four main objects of this Corporation is to provide technical and other assistance and guidance to urban local bodies in the matter of execution of their developmental schemes including implementation of Master Plans prepared for urban local bodies. Preparation of plans and estimates for developmental schemes and obtaining technical sanction for the same from the competent authorities in accordance with statutes, is a time consuming process. To speed up the implementation of schemes, the Corporation had requested the government to amend the Rules so as to enable the urban local bodies to engage private architects and engineers for preparation of plans and estimates of their developmental schemes. The rules were got amended accordingly. On the recommendations of this Corporation the government has prepared a panel of private architects and engineers for this purpose. There are 32 private architects and 3 private engineers in the panel at present. There is a proposal for creation of an inbuilt planning and engineering consultancy organisation within the corporation itself.

CREATION OF AN ENGINEERING AND CONSULTANCY WING

Implementation of integrated urban development programme can be ensured only if the corporation is equipped with necesssary qualified engineering personnel for undertaking engineering consultancy in the matter of preparation of layout designs, estimates, project reports, etc., and for granting technical sanction after duly scrutinising the plans and estimates of schemes financed by this organisation. Hence, this Corporation decided to establish an engineering and consultancy wing with competent technical personnel. At present the urban local bodies are depending upon PWD as per the existing provisions in the Kerala Municipalities (Public Works and Supplies) Rules 1963 for obtaining technical sanction of plans and estimates prepared by private architects and engineers. In many cases, considerable delay is being experienced in getting approval of the Public Works Department for the

scheme undertaken by urban local bodies. To eliminate the delay, it is felt necessary to equip the Corporation with competent engineering personnel to accord technical sanction for design and estimates of schemes sponsored by the urban local bodies. The engineering wing can also provide consultancy services to the urban local bodies in preparing project reports for the purpose of institutional finance.

The appraisal mission of the World Bank had identified the KUDFC as the nodal agency for channelising the funds to the urban local bodies for construction of Urban Agricultural Markets. The estimated rough outlay of the project is no less than 45 crores of rupees. Given the situation in the present set-up where the urban local bodies depending upon PWD and other technical departments of the government which are otherwise loaded with work, preparation and scrutiny of projects cannot be completed in time unless KUDFC steps in with technical and other project assistance.

Hence KUDFC proposes to organise on engineering and consultancy wing within itself whose function with respect to the Urban Agricultural Market projects will be on the following broad lines:

1. Assistance and guidance in the preparation of Urban Agricultural Market schemes by the local bodies. This is to be done giving weightage to variables like the different agricultural commodities of each local body and also after due consideration for the potential and emerging crop pattern.
2. Project appraisal using UNIDO project evaluation techniques. This is to ensure the projects economic and social viability as well as to tune it to the norms of World Bank assistance.
3. Scrutinising the technical and constructional aspects of the projects and also ensuring supervisory assistance in case of need during the implementation stage.
4. Monitoring and evaluation of the projects, during and after implementation.
5. For the above said purposes the engineering and consultancy wing may consist of the following three

groups of technicians and auxiliary staff for them:

(*a*) Architects with an orientation of Kerala's urban problem.
(*b*) Engineers with necessary experience and expertise in construction activities.
(*c*) Economists conversant with project evaluation techniques and financial monitoring.

The above personnel can either be recruited by the corporation on contract basis from open market or on deputation from Central and state governments and other Public Sector undertakings.

TRAINING

The corporation has started a centre for Urban Studies at state municipal House Trivandrum in June 1978. The centre is giving regular training to municipal personnel coming from various disciplines and cadres. The centre has so far conducted 25 courses of 2 months' duration for clerks and Management Development Programme for managers, revenue officers and municipal executives. Orientation courses on Town Planning and Building Regulation, special courses on Municipal Elections, and short term courses for Municipal Librarians are the other courses conducted by the centre for urban studies. These training courses have helped the Urban Local Bodies to improve the working of their administration. The centre is organising various courses for officers of urban local bodies at all levels. This corporation is making sincere efforts to develop the Centre for Urban Studies as a Research Centre on all matters relating to urban administration.

FUTURE PLANS AND PROSPECTS: DIVERSIFICATION OF ACTIVITIES

Hitherto, this corporation was concentrating mainly on financing remunerative schemes of urban local bodies. To achieve the overall development of cities and towns in the state and to arrest the haphazard growth of cities, the cor-

poration while providing financial assistance to urban local bodies give priority for schemes prepared under master Plans of the respective towns and cities. The financial commitment involved in the implementation of Municipal Five Year Plans and Master Plans will exceed Rs. 1,000 crores. Hence, the demand for financial assistance from the urban local bodies will go up considerably during the coming years. Taking into account this aspect and with a view to generate additional source of funds, the corporation has decided to supplement its resources by way of public deposit schemes, institutional financing, etc.

CONVERSION OF CORPORATION INTO A PUBLIC LIMITED COMPANY

Conversion of this corporation into a Public Limited Company was felt absolutely necessary to embark upon diversified urban development activities and to increase the paid up capital of this corporation. Hence the legal status of the corporation was changed from Private Limited to Public Limited Company, on December 17, 1982.

Financing Urban Development in Delhi-2001 AD

K S.R.N. Sarma, G. Jha† and Rakesh Gupta‡*

Present paper is a brief summary of the study "Financing Urban Development in Delhi-2001 A.D." undertaken by IIPA at the instance of DDA in the context of preparation of the Master Plan for Delhi (Development Plan) 1981-2001. In the study an attempt is made first to broadly review the implementation of the Master Plan of Delhi during the 1961-81 period and identify the issues relevant for directing the future financial reform effort. It is found that there were many shortcomings in the plan implementation. The sectoral developments could not be well balanced due to inadequate flow of capital funds for the various development activities owing to the presence of the multiplicity of field agencies. The field agencies pursued their respective development activities in isolation from each other. The differing perceptions of their roles and responsibilities (as flowing from their respective governing statutes), the accrual of funds for different activities from different sources, etc., are all observed to make the implementing agencies to pay more attention to the vertical (departmental) allegiances in disregard to the requirement of the horizontal (areawise) coordination. As per the express provisions in its governing statute, the Delhi Development Authority is required to transfer the facilities it developed to the municipal body of the area concerned, for their eventual maintenance and operation. But many a time, the transfer is resisted on the ground that it would add to the financial liabilities of the transferor body. As a result of

*Reader in Urban Finance, IIPA, New Delhi.
†Lecturer in Urban Finance, IIPA, New Delhi.
‡Lecturer in Urban Finance, IIPA, New Delhi.

such resistance, the DDA is presently compelled to provide civic amenities in its resettlement colonies with a total bill of around Rs. 18 crores per annum. It is the general view, that root cause of most of the disfunctionalities in the plan implementation is the inadequate financial framework that existed to inform and guide the functioning of different participating agencies. For ensuring the non-recurrence of past short falls, it is imperative that the financial implications of the various developmental activities, both in their capital and operational phases, are investigated in detail and appropriate measures are incorporated in their budgets. As per the terms of reference, the study's focus is mainly on the finances of the core urban infrastructure operation and maintenance agencies, *viz.*, the municipal bodies and the DDA *vis-a-vis* the requirements for effectuation of the objectives of the Delhi's Development Plan 1981-2001.

The examinations are done in two stages. In the first stage theconcern is with the determination of the capital investments that each of the local bodies would be required to make during the life-span of the Development Plan 1981-2001, compare them with the trends in the past investments. In the second stage, the attention is on the revenue incomes and expenditures of the local bodies and make an assessment of the impact that the proposed capital outlays are likely to have on them. The analysis in both the stages is utilised to arrive at the suggestions for reforms that need to be initiated to tone up the finances and their management in the local bodies in question.

ESTIMATION OF CAPITAL INVESTMENTS AND THE OPERATIONAL INCOMES AND EXPENDITURES

The start point for the financial estimation is the DDA's blue-print for the augmentation of various physical facilities, classified under twelve broad groupings, *viz.*, (*i*) land acquisition and development, (*ii*) new housing, (*iii*) community facilities comprising education, health, fire protection, police, post offices, gas, milk supply, etc., (*iv*) improvements (slum improvement), (*v*) public utilities (water supply, sanitation, electricity, telephone), (*vi*) recreation (city greens, etc.),

(*vii*) transportation, (*viii*) government offices, (*ix*) industry, (*x*) trade, (*xi*) development of central villages, and (*xii*) environmental improvement and personality programme for Delhi. The capital investments* that would be required for the creation of envisaged improvements are first worked out sectorwise, these are then time phased to correspond with periods of the national five year plans and finally the estimated outlays are apportioned among the major participating agencies. A summary of the last-mentioned is given in Table 1.

A comparison of the agencywise investments proposed in the Development Plan 1981-2001 with those of the First Master Plan (1961-81) indicates the following major shifts. The first is that the DDA has been assigned larger share of investment responsibility. The second is that industry, trade, environmental improvements are now proposed to be given greater prominance. The third is that in the case of Electricity the augmentation of generating capacity is proposed to be done outside Delhi in the Central Sector. As such, the investment in that regard has not been included in the Delhi's Development Plan.

As regards the estimation of operation and maintenance complement of the development (capital) investment indicated in Table 1, the same has been arrived at on the basis of projections of the population (holding capacity) and the per capita revenue expenditures. In arriving at the future scenario of the latter, simple regression equations incorporating the recent trends in the per capita expenditures on the services concerned; the changes in their relative composition that is likely to flow from the changes proposed in the pattern of capital investments; and finally the impact that the urban development in general may have on the revenue expenditures of the agency (as deduced from the buoyancy measures in relation to selected indicators of urbanisation) are utilised. Similar procedure is adopted to estimate the additional revenue incomes that are likely to accrue from the development proposals. These estimations agencywise for the seventh plan period are indicated in Table 2.

*These largely pertain to the capital constructions. The investments on machinery, equipment, etc., are, however, not included.

TABLE 1 AGENCY RESPONSIBILITY IN RESPECT OF CAPITAL INVESTMENT AS PER THE DEVELOPMENT PLAN PROPOSALS 1981-2001 AD

(*Rs. in crores*)

Sl. No.	*Item*	*MCD*	*NDMC*	*D CANTT.*	*DDA*	*DA*	*PSU at UT level*	*Central Govern-ment*	*PSU All India*	*Private*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	Land				892.22	816.30		37.78			1,746.25
2.	New Housing	27.20	7.80	—	2,104.56	38.90	23.30	291.60	3,784.40		6,271.00
3.	Community Facilities	147.95	27.85	5.18	1.68	610.96		186.82	10.79	223.12	1,214.35
4.	Improvements	60.00			300.00						360.00
5.	Public Utilities	563.50	1.00	0.76		5.75		105.00			676.01
6.	Recreation	15.00	8.00	3.0	30.40	20.0		15.00			91.40
7.	Transportation	84.00	11.00		22.00	322.00	29·00	529.00			997.00
8.	Government Offices					30.00		115.00			145.00
9.	Industry				49.63	33.09	41.36			703.12	827.20
10.	Trade and Commerce	135.83	15.43	3.09	61.72	30.86	30.86			521.39	830.04
11.	Development of Villages	35.00			5.00	10.00					50.00
12.	Environment Improvement										300.00

MCD—Municipal Corporation of Delhi; NDMC—New Delhi Municipal Committee; D CANTT—Delhi Cantonment; DDA—Delhi Development Authority; DA—Delhi Administration; PSU—Public Sector Undertaking; UT—Union Territory.

TABLE 2 DEVELOPMENT EXPENDITURE AND REVENUE ACCRUALS IN THE SEVENTH FIVE YEAR PLAN

(*Rs. in crores*)

	Development Expenditure			*Increment to the revenue income*
Local body	*Capital*	*O & M*	*Total*	
MCD	118.33	92.45	210.78	61.30
NDMC	16.15	9.37	24.52	8.82
DCB	2.30	—	2.30	—
DWS & SDU	129.40	104.35	233.75	61.34
DESU	50.00	515.71	565.71	413.90
DDA	929.51	—	939.51	—

NOTE: Estimations are at 1980-81 prices.

MAJOR TRENDS IN THE FINANCES OF THE LOCAL BODIES

Some of the major trends noticed in the finances of the local bodies and their implications for financing the future development programmes of the agencies covered are as under: In the case of MCD, the provision of plan grants (on cent per cent coverage basis) has helped that body to steadily increase its level of investments in three sectors, *viz.*, roads, primary education and health. In fact the investments in these three sectors constituted nearly 80 per cent of the total capital investments of the MCD during last decade. In all other sectors for which liberal plan grants are not available, the level of investments were very low. In some cases, they even declined. The per capita expenditures at constant prices in the case of primary education and health remained almost static. Incidentally, these are also the two activities for which full revenue grants were available to the MCD. In the case of most other functions, the per capita expenditures at constant prices recorded marginal rises. One of the major contributing factors for the rise in the per capita expenditures is reported to be the geographical extension of coverage of the services. As the Development Plan envisaged

relatively much enhanced capital investments in a number of sectors other than those for which plan grants are available (*i.e.*, in sectors other than roads, education and health), mobilisation of capital finances for the same may prove a difficult proposition for the MCD. That apart, the proposed changes (in the composition) of the capital investments may also lead to increase in the per capita revenue expenditures.

A broad idea about the impact of the urban development on the MCD's revenue expenditures and income could be had from the buoyancies indicated in Table 3.

TABLE 3 ELASTICITIES OF REVENUE EXPENDITURES AND REVENUE INCOME IN THE CASE OF THE MCD IN RELATION TO SELECTED INDICATORS OF URBAN DEVELOPMENT IN DELHI

Sl. No.	*State Income*	*Economic activities**	*Population*
Expenditure Item			
1. Education	0.9187	—	2.6614
2. Roads and public safety	1.1158	2.0526	3.3312
3. Public health and medical	0.8699	—	2.5157
4. Conservancy and street cleaning	1.0567	1.8785	3.0681
5. Gardens and community services	0.9943	—	2.8690
6. All items (Total Rev. Exp.)	0.8049	1.4389	2.3679
Revenue Item			
1. Property tax	2.6698	0.9130	1.6185
2. Terminal tax	1.5744	0.5158	0.9044
3. Entertainment tax	1.7883	0.6095	1.0514
4. Miscellaneous tax group	2.1457	0.7143	1.2565
5. Total Revenue	2.1981	0.7443	1.3126

*Proxy employed is volume of Electric consumption for commercial and industrial purposes.

From the buoyancies of the revenue income of the MCD given in the same Table 3, one could see that the MCD has

not been able to derive much revenue advantage from the urban developments and the improved economic position of the citizens. This is mainly because of the limited scope of its revenue base. The main stay of the MCD's revenue effort is the property tax. Several suggestions were made in the past by various official committees for reforms in the arrangements for rental value assessment and in the collection procedures. These may be given priority attention for implementation. The two major problems that the future reforms might be confronted with are: (1) the recent judgement of the Supreme Court in the case of Dewan Daulat Rai Kapoor *vs.* the NDMC extending the logic of rent control for the determination of rateable values; and (2) the Development Plan's emphasis on construction of around 80 per cent of all the new housing for the low income and economically weaker sections (*i.e.*, with low rateable values). While on the subject, it may be mentioned that another proposal of the Development plan to allow higher densities of housing in the existing colonies, if skilfully exploited, may have been beneficial impact on property tax revenues. The occasion for granting permissions for additions, alterations, etc., to the existing house structures may be utilised for effecting increases in the rateable value assessments.

The reforms in property tax alone might not be sufficient to build the type of municipal revenue base to cope up with the increased operation and maintenance expenditures resulting from the implementation of the Development Plan. It would be necessary to allow a better exploitation of Terminal Tax source through the adoption of *ad valorem* rates. The rate structure of Motor Vehicles Tax and Entertainment Tax also need to be revised periodically to get increased revenues. The suggestions for augmenting the municipal finances from new sources include the imposition of a separate tax on commercial properties, preferably on the basis of the zonal classification of the markets, trades carried out and the floor areas utilised; capitalisation of part of the operation and maintenance expenditures on community facilities such as parks, gardens, etc., in the newly developed areas and recovering the same from the premia of land sales.

The NDMC and the Delhi Cantonment Board have been

assigned relatively minor share of investment responsibilities in the Development Plan 1981-2001, as such their financing should not pose major problems. In the case of utility undertakings of the MCD, as already stated, there are certain policy shifts. These may have implications on their future finances. The most significant shift in policy is in the case of electricity supply. As already explained that all the new additions to the generation capacity to meet Delhi's demands would henceforth be in the central sector. It marks major recognition of the need for regional level efforts to tackle Delhi's development problems. Similar arrangement may, hopefully, emerge in due course in the case of water utility also. Despite the relief available from the responsibility assumptions by the central government, financing the other phases of utility services' development would require mobilisation of huge funds and there is no alternative for the undertaking concerned, but to seek and secure periodic revisions in their rate structures. There has to be separate sewerage charges for defraying the revenue expenditures on that service segment. Two new levies, *viz.*, Water Benefit Tax and Sewerage Benefit Tax on the Bombay Pattern, are suggested for creation of capital development funds. Instead of giving 'hidden grants' to the public utility undertakings in the form of loans not recovered or 'recovery deferred', a formal grant system may be devised. The latter would be a better method of promoting financial discipline. To secure strict compliance with the policy for rate revisions in consonance with the rise in the cost of the services and to ward off the populism tendencies in that connection, suitable amendments be made in the MCD Act. The huge magnitude of the capital and operation and maintenance expenditures involved in the provision of electric supply and water supply services, warrant continuous review and revision of the service norms and striving for better balance between the desirability and affordability. The city planning in this context has to be highly innovative. Preference has to be given to the service technologies that are energy/water conservative in preference over the conventional energy/water intensive and high cost ones. All possible incentives be given for encouraging the use of alternative (cheap) sources of energy, low cost sanitation (pour flush latrines), etc.,

not only by the residential users but also by the industrial and commercial institutions.

As regards the financing arrangements under the DDA, the 'agency work approach' still seems to be pervading all over, though the DDA has long emerged as one of the prime developing agencies in critical areas such as land development and housing. It would be in the fitness of the things, that the DDA has its own (independent) sources of finance. It is in this context, that a *de jure* recognition of the position obtaining in the field in the matter of utilisation of the Nazul I and Nazul II account funds is recommended. The Revolving Fund method of raising finances does not seem to be very much compatible with the development objectives that the DDA is expected to promote. Particularly the one relating to the reservation of about 80 per cent of all new shelter construction schemes for the low income and EWS categories. For the seed capital to be revolved with larger margins, it has to be inevitably utilised for the development and disposal in auction of plots for higher income residents and for commercial and industrial users. As land is not in unlimited supply, that source has to be used very cautiously. DDA's present heavy dependence on 'Revolving Fund' (Nazul II) revenues needs to be reduced and tapping of alternative sources has to be explored. To help the DDA to meet its growing operation and maintenance expenditures, separate revenue source may be earmarked and diversions from the capital funds for purely maintenance activities be discouraged. As regards the financing of the DDA's municipal functions, the solution for the same has to be found in improving the inter-agency coordination. Functions such as maintenance of city forests, gardens, ISBT, Delhi lotteries, Slum Improvement, etc., do not fit well with the primary tasks of the DDA and efforts are to be initiated to transfer the above to the MCD or to the Delhi Administration at an early date.

Turning to the financial framework for implementation, the major objective to be promoted is the synchronisation of the flow of funds with the functional performance of the various action agencies and to secure in the process optimum utilisation of the funds in terms of the programme goals. For this to be facilitated, a prerequisite is the preparation of financial

plan as adjunct of the physical development plan, embodying the projections of the revenues and capital and operational expenditures over the future time span. To serve as the start points for various iteration exercises that are usually involved, estimations of revenues and expenditures as mentioned earlier could be made use of. There are a number of inhibiting constraints in further extension of the estimations for evolving the city level financial plan. The hurdles seem to emanate largely from: (1) different sources and differing terms of availability of funds: (2) dichotomy of approach towards meeting the expenditure requirements during capital and operational facets and it getting further accentuated by the separation of agency responsibilities (for those phases), and (3) dispersal of administrative accountability as the action agencies operated from the local, state, and central government levels.

The first mentioned difficulty could be taken care when the suggestion for dovetailing the Delhi's development plan in the National Five Year Plan is given effect and all capital funds are routed through a single source. It is observed that the DDA which accounts for 20-25 per cent of the total public investments has been operating largely outside the national planning framework whereas all other public agencies engaged in Delhi's development have been receiving their capital funds mostly in the form of plan allocations. Now that the Development Plan envisages an enhancement in the share of the DDA's investments (45.55%), the need for dovetailing them in the national plan framework assumes added urgency.

As regards the second category of inhibiting factors, the same could be overcome through objective 'project formulation and appraisal' before taking the investment decisions. It is suggested that in the case of all major schemes (say involving capital investments of Rs. 1 crores and above) formulation of project reports and investment appraisal be made obligatory.[1] The information collected in the process about

[1]It is informally learnt that the DDA has recently launched a scheme involving several hundred crores without proper project formulation and investment appraisal, on the basis of a short administrative note.

the expenditure and income flows may be utilised for securing optimum responsibility delineations among the participating agencies. The proposals indicated in Table 2 if needed may accordingly be subjected to readjustment.

For overcoming the third set of difficulties the setting up of a plan coordination machinery as a separate department for Delhi's development in the Union Ministry of Works and Housing, has been suggested. The last mentioned suggestion would imply that the coordination machinery shall have requisite powers to assign responsibilities for the needed resource mobilisations and also for allocation of the external (Plan) financial assistance among the various bodies both for the capital and operational functions. The above reforms would require support in the form of adoption of performance budgets and capital budgets of uniform format by all the concerned agencies, establishment of computer based financial data bank, etc.

In order to make the city level financial plan fully operational, it may be necessary to undertake separate indepth studies to fix the responsibility realignments and internal organisational restructuring among the participating agencies. In this context a reclassification of the DDA's budget on functional lines is suggested. The existing accounting and budgetary arrangements (Nazul I, II and III, general development, ISBT, lotteries, etc.) be substituted by four budgets dealing with specific functions, (*vide* chart) *viz.*: (1) general administration (including the plan formulation and monitoring), (2) land development, (3) housing, and (4) commercial projects. This has to be preceded by a reorganisation of the DDA and creation of three undertakings within its general framework, *viz.*: (1) the Land Development Undertaking, (2) the Housing Undertaking; and (3) the Commercial Projects Undertaking. There have to be separate programme budgets for these three undertakings and a revenue budget for the general wing of the DDA.

In conclusion, it may be stated that given the relatively high income levels enjoyed by the Delhi's citizens and the favourable disposition of the central government towards development efforts in the Nation's capital, the attainment of invest-

ment targets set out in the Development Plan 1981-2001 may not pose serious problems, but to have the development on lasting basis it is essential that efforts in right earnest are initiated to build the financial capabilities of the local bodies.

Chart : PROPOSED ORGANISATIONAL RESTRUCTURING AND FINANCING MANAGEMENT UNDER THE DDA

MINISTRY OF WORKS AND HOUSING, DEPARTMENT OF DELHI'S DEVELOPMENT

↓

THE DELHI DEVELOPMENT AUTHORITY

DDA (GENERAL WING)

ACTIVITIES

1. PLAN PREPARATION
2. INTERAGENCY LIAISON
3. INFORMATION SYSTEM ON PLAN IMPLEMENTATION
4. DEVELOPMENT CONTROL
5. GENERAL ADMINISTRATION (AND WORK OF THE AUTHORITY)
6. ASSIGNMENTS AND CO-ORDINATION OF WORK OF THE UNDERTAKINGS OF THE DDA
7. PERSONNEL MANAGEMENT TRAINING AND DEVELOPMENT
8. LEGAL MATTERS
9. LEASE ADMINISTRATION
10. OPERATION AND MAINTENANCE OF DDA'S OFFICES, STAFF QUARTERS, ETC.
11. MUNICIPAL FUNCTIONS PENDING FINAL TRANSFER
12. ENG. RESEARCH, ETC.

REVENUES

1. GROUND RENT
2. FEES, FINES, ETC.
3. D VIDENDS FROM THE UNDERTAKINGS
4. RENTS. FRANCHISE FEES SHARE IN THE PROFITS FROM MARKETS, JOINT COMMERCIAL VENTURES
5. CHARGES FROM THE PURCHASERS/ALLOTTEES FOR THE CIVIC SERVICES PROVIDED TILL FINAL TRANSFER OF ASSETS CONCERNED.
6. GOVERNMENT GRANTS FOR MAINTENANCE, RESEARCH, ETC.

REVENUE (PERFORMANCE) BUDGET

LAND DEVELOPMENT UNDERTAKING (LDU)

ACTIVITIES

1. HELPING DELHI ADMINISTRATION IN LAND ACQUISITION
2. LAND DEVELOPMENT INCLUDING SITES AND SERVICES PROGRAMME
3. IMPROVEMENTS
4. DISPOSAL OF DEVELOPED LAND

REVENUES

1. PREMIA FROM LAND SALES/ALLOTMENTS
2. PLAN GRANTS FOR THE SITES AND SERVICES SCHEME
3. PLAN GRANTS FOR THE IMPROVEMENTS

PROGRAMME BUDGET

HOUSING DEVELOPMENT UNDERTAKING (HDU)

ACTIVITIES

1. ACQUISITION OF LAND FOR RESIDENTIAL USE FROM LDU
2. CONSTRUCTION OF HOUSES FOR GENERAL PUBLIC
3. ALLOTMENTS
4. CONSTRUCTION OF HOUSES FOR PUBLIC AGENCIES (INCLUDING DDA GENERAL WING) AS DEPOSIT WORKS

REVENUES

1. PUBLIC DEPOSITS
2. PREMIA FROM HOUSES SALE/ALLOTMENT
3. LOANS FROM HUDCO. LIC., ETC.
4. ISSUE OF BONDS
5. PAYMENTS FOR THE DEPOSIT WORKS

PROGRAMME BUDGET

COMMERCIAL PROJECTS UNDERTAKING (CPU)

ACTIVITIES

1. ACQUISITION OF LAND FOR COMMERCIAL AND INDUSTRIAL USES FROM THE LDU
2. CONSTRUCTION OF OFFICE COMPLEXES FOR THE PUBLIC AGENCIES (INCLUDING DDA GENERAL WING) AS DEPOSIT WORKS
3. CONSTRUCTION OF COMMERCIAL COMPLEXES/MANDIS/MARKETS/SHOPS/TRUCK TERMINALS/TAXI STANDS
4. CONSTRUCTION OF INDUSTRIAL ESTATES, ETC.
5. DISPOSAL BY SALE/LICENSING
6. PARTICIPATION IN JOINT VENTURES (HOTEL) ETC.

REVENUES

1. PREMIA FROM THE SALE/ALLOTMENT (LICENSING) OF THE COMMERCIAL PLACES/MARKETS. ETC.
2. LOANS FROM THE FINANCIAL INSTITUTIONS
3. ISSUE OF BONDS
4. PAYMENTS FOR DEPOSIT WORKS
5. PROFITS FRANCHISE FEES, ETC.

PROGRAMME BUDGET

Included in this category are operation and maintenance of gardens, city forests, picnic huts, civic functions in resettlement colonies. Besides the maintenance of ISBT, Management of Delhi Lotteries are suggested to be transferred to Delhi Administration.

*Financing Urban Development for Delhi-2001 in the Context of the National Capital Region**

J.C. Gambhir†

Delhi has opted for balanced urban development in the region to prevent the deterioration of the physical and socio-economic environment and to sustain a higher level of *quality of life* in the city. Delhi besides being the capital, is a historical city and has become a great centre of trade and commerce in North India. The city is growing at a rapid pace creating large scale problems of housing, transportation, infrastructural development and environmental and urban management. The major development issues for the Union Territory of Delhi are: (*i*) Planning the metropolis in the regional context (National Capital Region), (*ii*) Development of transportation, housing and infrastructure, (*iii*) Conservation of natural and built environment and checking of air and water pollution, and (*iv*) The Development of rural areas.

PLANNING THE METROPOLIS IN THE REGIONAL CONTEXT

The national policy requires a curb to be put on the rapid growth of metropolitan cities and to carry out balanced development of the region around it. In the case of the national capital this can only be done by planning and financing the development of a larger area around it with social and economic inter action and inter-dependence, wherein effective

*Views expressed in this paper need not necessarily be taken as those of the organisation (DDA) that the author represents.

†Director (Perspective Planning), DDA, New Delhi.

decentralisation of economic activity and population distribution can be effected. In addition to this, selected counter-magnets to be identified outside the region beyond a commutable distance from Delhi should also be taken up for development in coordination with the development of National Capital Region (NCR).

The balanced development of NCR, therefore, can best be achieved through a coordinated and synchronised planning exercise carried out at four levels as indicated below:[1]

(*i*) Urban Delhi as being planned for 2001 within the Union Territory of Delhi (1485 sq. kms.).

(*ii*) Delhi Metropolitan Area (3182 sq. kms.) with Urban Delhi as the core and the six first tier towns of Faridabad complex, Gurgaon, Bahadurgarh, Kundli, Ghaziabad and Noida.

(*iii*) National Capital Region (about 30,000 sq. kms.) with the Union Territory of Delhi; 4 districts (Faridabad, Gurgaon, Rohtak and Sonepat) and two tehsils (Rewari and Panipat) of Haryana, 3 districts (Meerut, Ghaziabad and Bullandshahr) of UP and five tehsils (Alwar, Behror, Mandawar, Kishangarh and Tijara) of Rajasthan.

(*iv*) Counter magnets with a population of 3 lakh and above with potential for growth and scope for higher level of infrastructure to be identified after careful study outside the region beyond a commutable distance from the National Capital, for their planning and development in coordination with that of NCR.

A study of the population projections for 2001 based on current trends and certain *ad hoc* projections within the NCR has revealed certain disturbing prospects. If no corrective measures are taken, Delhi Union Territory will have a population of about 150 lakh by the year 2001. The six towns of Delhi Metropolitan Area (Faridabad-Complex, Bahadur-

[1]Draft proposals for National Capital Region-2001, Town and Country Planning Organisation, Ministry of Works and Housing, Government of India.

garh, Gurgaon, Kundli, Ghaziabad and Noida) which for all purposes constitute a continuous agglomeration with Delhi Union Territory as the core would contribute another about 40 lakh. Together, this would constitute a continuous city structure of about 2 crore population. For the projected level of national development by the year 2001, a continuous urban agglomeration of about 2 crore population would be unmanageable; be it from the point of enormity of cost of development, insoluble problems of management, or expectations with regard to patterns of living and quality of environment.

INCENTIVES AND DISINCENTIVES FOR BALANCED REGIONAL DEVELOPMENT

For a balanced development of the NCR 2001, decentralisation of economic activities and concomitant dispersal of population is necessary. Not only the growth of Delhi needs to be restricted but also those of the first tier towns of Delhi Metropolitan Area (DMA), while growth in the other NCR towns and counter-magnets outside NCR needs to be accelerated. The primary means to achieve this restriction in growth of population and economic activity is a policy of selected disincentive to employment generators in Delhi and in DMA towns, while major incentives in towns of NCR and counter-magnets. The other means are rationalisation of tax structure to enable NCR to function as one common economic market system, development of both physical and social infrastructure of regional level; development of a restructured transportation system; provision of a high level of tele-communication service within the region and judicious location of specially large employment generators.

Major employment generators for dispersal within the NCR fall into three categories: employment in central government and public sector undertakings; industries; and wholesale trade and commerce. In regard to central government offices, only such new offices which directly serve the ministries of the Government of India be located in Delhi. This should not affect existing offices except when they require expansion. In such an event, the first tier towns of DMA should be

selected. New offices should be set up outside Delhi in the DMA, NCR and other cities of India to take advantage of the existing city level infrastructure there. Incentives for locating/shifting outside Delhi in the DMA, NCR and other cities of India can be given in terms of house rent allowance, city compensatory allowance and health benefits at the same level as provided in the Union Territory of Delhi. As a further incentive, housing for central government employees can be provided near place of work in the DMA, NCR and other cities of India. In regard to offices of the public sector undertakings, to the extent these are feasible within their occupational areas, should be set up outside the DMA in the NCR, counter-magnets or in other cities of India to take advantage of their city level infrastructure. Existing offices of public sector undertakings within Delhi should also be encouraged to shift to NCR and other cities except offices for liaison functions.

As regards industries, the industrial policy of the states of Haryana, UP and Delhi be harmonised keeping the NCR as an integrated region and no new employment intensive large industry should be permitted to be set up in Delhi and the DMA. Industrial growth be restricted in Delhi and only small scale units employing upto 50 workers each be permitted with stress on units which require skills but less manpower and energy, are non-nuisance and clean and which largely sub-serve Delhi's economy. In the rest of DMA units employing upto 500 workers be permitted provided they are clean and of a non-nuisance character and low in energy consumption. Land can be provided for expansion of the units and for housing. The units should largely service the DMA but can also be export-oriented. Special infrastructure in terms of banking facilities and telecommunications apart from water and power can be provided of the same order as in Delhi. Large scale labour intensive industries may be encouraged in the NCR and other cities.

As regards wholesale trade, facilities for distribution of only those commodities be permitted/developed in Delhi Urban Area or DMA towns, majority of which are directly used or consumed in Delhi. All other commodities, majority of which are not directly used in the city be marketed from

outside Delhi Urban Area and DMA towns, *i.e.*, from other NCR towns or counter magnets. The NCR be treated as a common economic market system with free movement of goods and people, and the taxation structure be rationalised accordingly. This applied to rationalisation of sales-tax and octroi/terminal taxes within NCR.

INFRASTRUCTURE FOR THE NCR

Planning and development of infrastucture for the NCR be taken up at the regional level for water, power, drainage, and flood control. A system of road linkages not only to connect the ring towns with Delhi but also to connect them to each other and open up the region be implemented. Development of north-south and east-west express ways, development of inner and outer road grids, construction of some missing road links, and integration of intra-regional road network with intra-urban road network of Delhi and DMA be taken up expeditiously. The Committee constituted in the Planning Commission on the future of the Ring Railway has endorsed the construction of a goods avoiding line to by-pass Delhi between Khurja and Panipat *via* Rewari and Rohtak. In addition, the committee has recommended a phased programme of development of EMU service on the ring railway, alongwith development of spurs from Delhi to Ghaziabad and Palwal. These recommendations should be implemented expeditiously.

COMPARATIVE TAXATION AND POWER TARIFF IN THE NCR

Making comparative statement of the sales taxes in Delhi and UP by the Perspective Planning Wing of DDA during the Perspective Plan preparation exercise it was revealed that for most of the commodities the sales tax is lower in Delhi and Haryana than in UP. There is an exemption of sales tax on tractors and its accessories, exercise books and chemicals and fertilizers in Delhi whereas in UP it is 3 per cent to 5 per cent; commodities like furniture, cement, paints have 7 per cent sales tax in comparison to 10 per cent, 9 per cent and 8 per

cent respectively in UP. Exceptionally liqour has a sales tax of 12 per cent in Delhi and about 25 per cent in UP. There is no sales tax on foodgrains in Delhi.

Data collected in the Perspective Planning Wing in DDA in 1982 has also revealed that the power tariff are significantly low in Delhi when compared to that of UP for various uses. The general pattern in power tariff highlights that it is 1.5 to 2 times higher in the town of UP, Haryana and Rajasthan for various uses, except the tariff for small scale industries which was more in Delhi.

FINANCING URBAN DEVELOPMENT IN DELHI 1981-2001

In the financial framework for plan implementation, the objective to be promoted is principally the synchornisation of the flow of funds with the functional performances of the various agencies with a view to enhance optimum utilisation of the funds mobilised in terms of the programme goals. For this to be facilitated, the prerequisite is the preparation of a financial plan as adjunct to the physical development plan, embodying the projections of the revenues and capital and operational expenditure over the future time span.

As part of the Perspective Development for Delhi 2001, the total capital investment required has been worked out for 1981-2001 in different sectors as Rs. 13,214.65 crores based on 1981 prices as given in Table 1.

STRATEGY FOR FINANCING

The problem of housing, traffic and transportation and infrastructure taken up together are gigantic compared to available finances. The strategy should be:

(*i*) To exploit land as resource which provides ample opportunities for city's development.

(*ii*) The public investment should more suitably go into the development of land and infrastructure while building activities as far as possible to be left for the private investment.

TABLE 1[2]

(*Rs. in crores*)

Sl.No.	*Item*	*Total*
1	(*a*) Land acquisition	803.10
	(*b*) Development of land (Residential Industrial)	943.15
2.	New housing	6277.40
3.	Community facilities	1214.35
4.	Improvements	360.00
5.	Public utilities	676.00
6.	Transport	997.00
7.	Recreation	91.40
8.	Government offices	145.00
9.	Industry	827.20
10.	Trade and commerce	830.04
11.	Environment Improvement and development of central villages	50.00
	TOTAL	13214.65

Based on this assumption public *versus* private investment has been worked out as given in Table 2.

The capital investment programmes for Urban Development in Delhi for 1981-2001 have been prepared as indicated in the previous tables. The studies conducted by the Indian Institute of Public Administration on behalf of the DDA to draw experiences of the last two decades for financing urban development, indicates that the deficiency in the flow of funds could be traced to two chief sources:

(*i*) the weak revenue base of the local bodies; and
(*ii*) inherent flaws in the financial framework that existed for the plan implementation specially in the matter of inter agency coordination.

The limited nature of the revenue base of the local bodies seriously hampered their capacity to derive revenue advantages from the urban development and improved economic positions of the citizens that they helped to usher in. The inelastic

[2]Financing Urban Development in Delhi-2001 Centre for Urban Studies, Indian Institute of Public Administration.

revenue mobilisation severely curtailed the funds availability even of the natural expenditure increase in the traditional civic functions.

The IIPA have suggested reforms in the property tax being main revenue earning for the local bodies. Similarly they have indicated that there is no alternative for the undertakings of the local bodies concerned but to secure periodic revisions of the rate structure of the utility services.

The studies have also revealed that it would be most appropriate that DDA should have its own independent source of finances. In this context they have recommended *de jure* recognition of the position obtaining in the field in the matter of funds utilisation of the revolving fund accounts.

TABLE 2

Sl. No.	*Item*	*Public Investment*	*Private Investment*
1.	(*a*) Land acquisition	803.10	—
	(*b*) Development of land (Residential and Industrial)	943.15	—
2.	New honsing	2493.36	3784 04
3.	Community facilities	991.23	223.12
4.	Improvements	360.00	—
5.	Public utilities	676.00	—
6.	Transport	997.00	—
7.	Recreation	91.40	—
8.	Government offices	145.00	—
9.	Industry	124.08	703.12
10.	Trade and commerce	308.64	521.40
11.	Environmental improvement and development of central villages	—	—
	TOTAL	7982.97 (60.42%)	5231.68 (39.59%)

The Urban Development in Delhi should be dovetailed with the regional and metropolitan economy which cannot be given a direction without financing investment in the critical sectors at the proper time. It is all the more essential to fit the

metropolitan developments into an overall frame of priorities in different phases and to channelise their individual sectoral development on a planned basis.

The urban concentrations in and around the National Capital display great vitality and hold the potential for tremendous growth. These have to be channelised into orderly growth and balanced development of the region. The region has to be planned as a composite unit. Past experience makes it imperative that there should be coordinated and synchronous actions to develop both the physical and economic structures to maximise growth. This can only be done if inter-related development programmes are implemented in a time scale for UT of Delhi and the sub-region of Haryana, Rajasthan and UP.

HOUSING

Housing in any metropolitan city has always been a complex problem and Delhi is no exception. Housing shortage at present has been estimated to about 3.8 lakh which includes: (*i*) squatters and shelterless, (*ii*) families sharing housing in congested built up areas, and (*iii*) houses requiring immediate replacement. During the 1985-90 about 3.3 lakh additional household would be added in the Union Territory of Delhi. Thus to completely estimate the deficit of housing shortage, housing units required in the seventh five year plan would be 7.1 lakh.

To evolve a strategy, the housing problem needs to be seen from two angles: (*i*) overall view, and (*ii*) schemes to be financed from the plan funds for specific target groups. In the overall context the most pertinent issues for housing in the metropolis are: (*i*) availability of land, (*ii*) capital required for the acquisition and development land and for minimal housing.[3]

About 66 per cent of total housing in the next five years would be required to be provided outside the present urbanisable limits. The land would be required for housing as well

[3]Report of Working Group on *Housing Urban Development, Power Water Supply and Sewage Disposal*, Delhi Development Authority.

as other activities, *i.e.*, work areas, transportation network, social and physical infrastructures and open areas, etc. On the basis of overall densities as worked out in the DDA the requirement of land shall be of the order of 8700 hectares, 50-55 per cent of which would be used for the development of housing areas. The estimated cost of land acquisition (@ 3 lakh per hectare) would be Rs. 260 crores. The cost of development of the residential land would be Rs. 520 crores (@ 12 lakh per hectare of gross residential area). The capital financing needed would be about 780 crores. This means: (*i*) Augmentation of the existing revolving fund, and (*ii*) higher emphasis on land development to take up this task on a war footing. The problem is gigantic and would need drastic action.

Studies in the DDA have indicated that overall housing in Delhi could be provided as indicated in Table 3.

TABLE 3

Housing Type	*Land Development Agency*	*Construction Agency*	*Percentage of Housing*	*Seventh Five Year Plan target*
1. Slum Housing	Slum Deptt.	Slum Deptt.	3	21,300
2. Houses on individual plots	Major part already developed	Individual family	17	1,20,700
3. Employer housing	Central Govt. Delhi Admn. Local Bodies	Central Govt. Delhi Admn. Local Bodies	4	28,400
4. Regularised in-fulls	Individual	Individual	8	56,800
5. General Housing				
(*a*) Sites and Services	Housing agency	Individual family	25	1,77,500
(*b*) Built and partially built houses	Housing agency and cooperatives	Housing agency and cooperatives	43	3,05,300

In case of schemes at 2, 3, 4 and 5(a), developed land is to be provided by the Housing Agency and construction of the dwelling unit is to be constructed by the individual families.

Housing is to be constructed by the Slum Department in case 1. The execution of the schemes at Sl. No. 5(b), *i.e* , built and partially built housing is to be shared by the Housing agency and the housing cooperatives. Out of about 3 lakh dwelling units in this scheme, one-third, *i.e.*, 1 lakh could be taken up by the cooperative sector and two-thirds, *i.e.*, two lakhs could be taken by the housing agency, *i.e.*, DDA at the rate of 40,000 dwelling units per year.

For cooperative societies resources amounting to Rs. 250 crores would be mobilised from the sources mentioned in Table 4. During the Seventh Five Year Plan. This would account for about 50 per cent of the financing requirement of the cooperative societies, while the remaining 50 per cent is proposed from the savings of the individual families.

TABLE 4

Sl. No.	*Name of the institution/Source*	*Amount in crores*
1.	LIC	40
2.	Government guarantee	125
3.	International finance corpporation	50
4.	Share capital contribution by Delhi Administration	10
5.	Own funds of DCHFS	15
6.	Deposits from member societies	10
	TOTAL	250

TRANSPORTATION

Delhi is the converging point of five railway lines and nine major roads of which five are National Highways. Unless strong measures are taken in the structuring of the towns in the National Capital Region and the regional railway and road linkages are developed which will create an environment for development in the NCR, the convergence of the existing transportation system will create chaotic conditions in Delhi. The structure of Delhi Urban Area within Metropolitan Region is peculiar because a number of programmes and

developments that are in the pipe line in the towns at the periphery of Delhi Union Torritory will have a far reaching effect on the city. Further, at the level of Delhi Urban Area the problem is serious due to the size, magnitude and the number of central business district functions which need decentralisation.

With the restructuring of the land uses, the ring rail presently acting partially as goods avoiding line would have to be fully left for passenger movement by the year 2001. For goods movement, an alternative line joining Delhi-Mathura Railway line outside the present urbanisable limits and outside the Delhi Union Territory would be required to cater to the goods movement by rail. The proposal is to connect Khurja, Palwal, Rewari and Panipat. Further, a railway link connecting Tughlakabad with Sahibabad in the South of Noida would be required to bypass goods traffic from Mathura Railway line to Delhi Aligarh Railway line.

The transportation in Delhi Union Territory requires:

Land Use Restructuring and Decentralisation

(*i*) At the city level it is necessary to relate the place of work and residence to provide safe travel in minimum time. This will acquire land use restructuring to maximise the containment within each planning division to reduce the journey time.

(*ii*) By restructuring land uses, to create more job opportunities along the ring railway and linking the employment with the residential areas along the spurs of the ring.

(*iii*) Development of all the district centres marked in the Master Plan within the next 5 to 10 years to provide better employment within each planning division.

Development of Transport System

(*i*) Development of multi-modal mass transport system consisting of ring rail, light rail transit, buses and trams along the selected routes to simultaneously share the mass transport need. The proposed modal split expected to be achieved by the end of 1981 and 2001 is 70 per cent and 75 per cent respectively from the exist-

ing 1984 modal split of 64 per cent. To increase this pace a higher financial outlay is required to improve and strengthen the mass transport system supply.

(*ii*) To ease the congestion in the walled city, it is proposed to bring out the warehousing and storage activity to the suitable peripheral areas of the city. This will avoid the heavy goods traffic entering the core areas of the city. For this purpose four integrated freight complexes are proposed for the city. These will be able to take care of the warehousing, storage, wholesale trade activity including servicing and parking of the trucks and facilities for short stay.

(*iii*) The storm water drain network of the city offers a high potential for the development of express cycle tracks along the bank of the drain on selected number of routes.

(*iv*) To reduce the burden of regional passengers on the city system, it is envisaged to decentralise the Interstate Bus Terminus and the rail terminals. This should be achieved by developing four integrated metropolitan passenger terminals.

At all these points the facility of city bus, light rail transit, regional bus, and regional train facility should be inter linked.

SUMMARY

Delhi has opted for balanced urban development in the National Capital Region, the first and foremost task of the recently created NCR Board is to update and prepare a plan for the National Capital Region with a perspective upto 2001 which should provide a frame for development and decision making in the constituent areas. Such a plan would also provide a frame of priorities of regional and metropolitan development and to channelise the individual sectoral developments on a planned basis.

Urban development in Delhi should be in the context of National Capital Region based on the following policy guide-

lines for employment distribution:

(*i*) Only such new central government offices which directly service the ministries of the Government of India be located in Delhi.
(*ii*) Existing offices of public sector undertakings within Delhi should be encouraged to shift while new offices of the public sector undertakings to the extent these are feasible within their operational areas should be set up outside the Union Territory of Delhi.
(*iii*) Industrial growth in Delhi should be restricted to small scale with stress on units which require skill, less of manpower and energy and are non-nuisance and clean and largely subserve Delhi economy.
(*iv*) Legal and fiscal measures should be adopted to restrict employment in industries and distributive trade.

The regional and metropolitan economy cannot be given direction without financing investment in the critical sectors at the proper time. The problem of housing, traffic and transportation and infrastructure taken up together are gigantic compared to the available finances. The strategy should be:

(*i*) To exploit land as resource which provides ample opportunities for city's development.
(*ii*) The public investment should more suitably be for the development of land and provision of infrastructure while building activity as far as possible should be left to the private investment.

Strong measures are required for the restructuring of the transportation system in the region by developing regional railway and road linkages to create an environment of development in the NCR and to counteract the convergence of the existing transportation network which could create chaotic conditions in Delhi.

The land uses along the ring railway in Delhi require to be restricted and the ring railway line would have to be left only for passenger movement by the year 2001. For goods movement, an alternative line joining Delhi-Mathura Railway

line outside the present urbanisable limits and outside the Delhi Union Territory would be required to cater to the goods movement by rail. The proposal is to connect Khurja, Palwal, Rewari and Panipat. Further, a railway link connecting Tughlakabad with Sahibabad in the South of Noida would be required to bypass goods traffic from Mathura Railway line to Delhi-Aligarh Railway line.

A comprehensive plan of regional investment is not possible in the absence of National Capital Region Plan, which could indicate priorities and assessment of various sectors of development. Thus the foremost need at present is the preparation of National Capital Region Plan in a time bound frame.

Revolving Fund as a Technique of Financing Land Development: A Critique

*Gangadhar Jha**

Compulsions of providing services and amenities to the increasing population in cities and towns have led to the innovation of new sources and methods of mobilising financial resources by the local authorities. Revolving fund is one of them. Though traditionally known as a method of financing business operations, revolving fund has become a popular method of financing urban development particularly after its extensive use by the Delhi Development Authority which has exclusively financed land development by taking recourse to this technique on a very large scale. It has revolved the original seed capital manifold indicating substantial resource mobilisation. This has occasionally led to suggesting of its replication for financing development of land in other cities and towns.

Though not a tax, the revolving fund method of financing urban development has also its economic inplications in the distribution branch of public finance like any other tax. The indomitable zeal to revolve the seed capital—a major concern of revolving fund—has to be reconciled with the social objectives of subserving the needs of various income groups especially the weaker sections according to their affordability. Thus like any other tax, it has also to be concerned with the principles of equity and adequacy. The paper, therefore, evaluates resource mobilisation potentialities of revolving fund especially in relation to the distributional objectives. This is done by analysing financing of land development by the Delhi Development Authority (DDA) through revolving fund

*Lecturer in Urban Finance, IIPA, New Delhi.

and its disposal to various income groups during the life span of the first Master Plan of Delhi (1961-81). This requires to have data on the development of land alongwith investments in its development, total sale proceeds of the developed land and its distribution among the different income groups on the year to year basis. Due to constraints on the availability of data on these, the analysis is based on whatever data could be available on the operation of revolving fund and the development of land and its disposal in Delhi. This has been supplemented by simulating a model of development and disposal of land through revolving fund in order to comprehend distributional effects of this method of financing land development as also the extent to which distributional objectives and the objective of revolving the seed capital are reconciled with each other. This is, however, preceded by a brief conceptual description of revolving fund as a financing method.

REVOLVING FUND: THE CONCEPT

Revolving fund basically means to revolve the initial working capital in such a way that it yields a handsome return on investment which alongwith the working capital is again ploughed back with a view to secure increasing return in each cycle of investment. In the jargon of accountancy, it means "a fund from which moneys are continuously expended, replenished and again expended".[1] Utmost consideration in the management of fund is the augmentation of investible resources so that financing of a particular activity is not constrained by the shortage of funds. The initial seed capital goes on yielding increasing return in each phase of investment which when reinvested brings still larger return on reinvestments. The fund thus revolved comes handy for further financial investment.

It should be thus obvious from the very nature of revolving

[1]Kohler, *Dictionary of Accountants*, quoted from J.P. Shah, "Revolving Fund—A Technique for Financing Public Housing Programmes", N.B.O. and U.N. Regional Housing Centre (ECAFE), *Selected Papers from Symposium on Housing Finance* (held in New Delhi, on Feb. 1-3, 1965), New Delhi, pp. 102-8.

fund that there are a few preconditions for the successful revolving of the initial working capital. Firstly, the fund, in order to be augmented, must be invested in remunerative projects which could yield larger return on the working capital. Secondly, investments have to be made in such projects which have a short gestation period. A long gestation period would keep the capital locked for long and hence investment would become unremunerative as there is an opportunity cost of capital. Thirdly, in order to have a maximum return on investment, a suitable pricing policy has to be evolved for recouping the invested capital.[2] Like a discriminating monopolist, the agency managing the revolving fund has to evolve a discriminating pricing policy charging a higher price from the affluents and a low price from the middle income group and a price lower than the cost price from the lower income group and the economically weaker sections of society. A larger subsidy for the lower income groups would necessitate charging of a very high price from the high income group. However, it is worth stressing that lest a very high price depresses the demand, the subsidy has to be minimum. Promoting this balance in the price structure proves to be the most difficult exercise in the management of revolving fund and generally it does not succeed if a very large proportion of the total population belongs to lower income groups.

The basic concern of revolving fund is thus to maximise return on capital investment for augmenting the investible resources for urban development. The major plank of urban development policy being to serve the needs of the low income group and the economically weaker sections of society, the revolving fund as a method of financing may militate against this objective. In order to gain an insight into this let us now turn to a case study of financing land development in Delhi.

FINANCING LAND DEVELOPMENT: A CASE STUDY OF DELHI

Evolving fund was adopted as the method of financing the

[2]J.P. Shah, *op. cit.*

development of land for implementation of the first Master Plan for Delhi. The Master Plan was basically a land use plan and proposed to develop a total area of 1,10,500 acres of land within the urbanisable limit for 1981[3] including the land which were built up at the time of the formulation of the Master Plan. The new areas to be developed comprised of 30,000 acres for residential use, 4,800 acres for industrial use, 1,900 acres for commercial use, 25,000 acres for recreational use (parks) and 500 acres for government offices. Even before a normal start of the Master Plans, implementation in September, 1962, the Government of India took a positive step to provide a strong policy support for the implementation of the plan by a declaration in May, 1961 of an urban land policy.[4] This is popularly known as the "Scheme of Large Scale Acquisition, Development and Disposal of Land in Delhi". About 50,000 acres of land was notified for acquisition up to October, 1961. A huge quantity of land was thus frozen from private development.

In order to finance the development of land, the Government of India created a seed capital of Rs. 5 crores. This was subsequently augmented to Rs. 12.31 crores. This seed capital was supposed to be revolved by investing it in land development and "As a general policy, disposal of developed land" was to be "made by auction" except a few categories which were supposed to be allotted land at predetermined rates. These were: (*i*) the individuals whose land is acquired, (*ii*) the individuals in the low income group, (*iii*) the industrialists requiring to shift the factories from the existing locations, and (*iv*) the cooperative societies of the prospective house builders, industrialists and manufacturers. Predetermined rate included the cost of acquisition, development and an additional charge ranging from Rs. 3 to 8 per sq. yd. depending upon the size of the plot. A ground rent at the rate of 2½ per cent per annum of the premium was also supposed to be charged from the allottees. The scheme

[3]DDA, *Work Studies Relating to the Preparation of the Master Plan for Delhi*, Vol. 1, (no date), pp. 404.

[4]Government of India, Ministry of Home Affairs, Letter No. 37/16/60-Delhi (i), dated May 2, 1961, addressed to the Chief Commissioner, Delhi.

envisaged to earmark for the low income group a "Suitable percentage of the area developed for private housing by the DDA".

Amendments were further brought into the policy in July, 1967 and February 1970. The changes included: (*i*) allotment of land at predetermined rate even to the middle income group, (*ii*) a ceiling of 125 sq. yds. and 200 sq. yds. was put on the size of plots to be allotted to the low income group and the middle income group, respectively, (*iii*) reservation in the allotment of land was made for certain categories like the sitting Members of Parliament (5%), salaried class (50%), scheduled castes and tribes (15%), widows and dependents of the defence personnel and the disabled service personnel (15%), and (*iv*) the land was to be allotted to the cooperative societies only for the group housing, not for plotted housing.

The seed capital of Rs. 12.31 crores came as a fixed paid up capital without any obligation of its repayment or the payment of interest on it. The fund was located in the Delhi Administration and in order to facilitate its operations a personal ledger account was opened with the Reserve Bank of India in favour of the Housing Commissioner, Delhi Administration. Advance, was made by the Government of India in this account from time to time. The modalities of operation of this scheme has been that the Land and Buildings Department of Delhi Administration acquires the land and the cost of acquisition is met by drawing the money from the revolving fund. The expenditures made on the development of land was to be drawn by the DDA after obtaining due sanction from the Delhi Administration. On the receipt side, the entire sale proceeds of the developed land was supposed to be credited to the revolving fund. Ground rent, damages, penalties, licence fee, etc., were to be regarded as revenue receipts and hence to be credited to the appropriate major and minor heads of the budget accounts of the Government of India.

The Revolving Fund was thus created to serve as an instrument for mobilisation of financial resources to implement the Master Plan proposals. The seed capital was supposed to be revolved in a manner to generate enough funds so that the public exchequer could not subsequently be subjected to financial pressure for additional funds. The basic idea behind

this was to utilise land as resource for generating funds for urban development.

As the development of land under the scheme of Large Scale Acquisition, Development and Disposal of Land in Delhi gathered momentum, the procedure for sanctioning the fund for the development of land to the DDA was thought to be creating impediments for a speedy development of land. It was felt by the DDA that the requisite amount of fund for land development was not flowing smoothly. The crediting of the sale proceeds of land into the revolving fund was, therefore, discontinued in 1966 and the DDA was permitted to utilise it for meeting the expenditures on the on-going projects and to credit into the revolving fund only the surplus receipts.

In 1967 and again in 1969 the scope of the revolving fund was further enhanced for taking up the schemes of construction also.[5] Now onwards the revolving fund was to be used also for the construction of multi-storeyed flatted factories, single-storeyed flatted factories, single storeyed sheds for group industries, warehousing, bus terminals, parking sites for idle trucks and cars, development of district and community centres, local and convenient shopping centres in residential colonies, acquisition and development of land in the Ring Town of Narela and construction of special markets like cycle market, vegetable markets, etc. It is thus obvious from this enhanced scope for investments out of revolving fund that more remunerative schemes were brought within the purview of the revolving fund.

Operation of the Revolving Fund

The operation of revolving fund during the life span of the first Master Plan is presented in Table 1. The table indicates vividly that in financial terms, the operation of fund seems to be tremendous success. The seed capital of Rs. 12. 31 crores was revolved to about Rs. 206.75 crores representing a resource mobilisation of about Rs. 194 crores. This gives an impressive account of land being utilised as resource for financing urban development. It is this financial turn over

[5]Government of India, Ministry of Works and Housing, Letter No. 18011(15) 66-4D (Vol. II) of July 13, 1967; No. 180011(15)67-4D (Vol. II) of December 18, 1969.

TABLE 1 OPERATION OF THE REVOLVING FUND
1961-81

(*Rs. in lakhs*)

Year	*Receipt*	*Expenditure*
1961-62	83.76	386.33
1962-63	460.56	829.51
1963-64	616.27	749.86
1964-65	693.98	512.50
1965-66	539.89	559.05
1966-67	749.92	668.82
1967-68	999.50	740.96
1968-69	784.62	1026.27
1969-70	702.59	1081.31
1970-71	739.61	911.47
1971-72	809.43	848.47
1972-73	853.39	707.64
1973-74	924.68	789.19
1974-75	680.90	643.50
1975-76	1640.30	1261.20
1976-77	1608.20	1412.40
1977-78	1400.00	1412.70
1978-79	1589.50	1519.30
1979-80	1598.00	1463.30
1980-81	1969.30	2021.80
Seed Capital	1231.00	—
GRAND TOTAL	20675.40	19545.65

NOTE: Figures have been rounded to its nearest digit.
SOURCE: Land and Development Department, Delhi Administration.

which has generally been lauded and has led to the suggestions of its replication in other Indian cities and towns.

However, it needs to be stressed that the method of financing has to be conceived in relation to the programme objectives so that it becomes an effective instrument for translating these objective. The objectives of the Scheme of Large scale Acquisition, Development and Disposal of Land in Delhi basically were to control the rise in urban land values and to serve the needs of the low income group by reserving "A suitable percentage of the developed land for private housing". A deeper analysis of the development and disposal of land

and the trends in urban land values in Delhi does not give so an impressive account of revolving fund as a method of financing land development. Distribution of developed land to the various income groups is presented in Table 2.

It is evident from the table that the high income group (HIG) got the lion's share (47%) in the total land allotted to the various categories of allottees. The low income group (LIG) and the middle income group (MIG) got only about

TABLE 2 DISTRIBUTION OF LAND TO DIFFERENT CATEGORIES IN DELHI (UP TO MARCH 1983)

Category	*No. of Plots*	*Area (Acres)*	*Percentage to the Total*
1. Auction to the High Income Group	9,570	602.7	47.1
2. Alternative Allotment	2,950	138.9	10.9
3. Middle Income Group	5,820	269.6	21.1
4. Low Income Group	14,669	257.2	20.9
TOTAL	33,009	1,278.4	100.00

SOURCE: Commissioner Land, DDA.

21 per cent each and whose lands were acquired, were given about 11 per cent of the total land allotted in Delhi between 1961 and 1982. In the initial years, for a decade, the distribution of land was heavily skewed in favour of the HIG as is evident from Table 3. It is obvious from this table that between 1961-62 and 1971-72, the HIG got as much as nearly two-third of the total land allotment. The LIG could get only 5.5 per cent and the MIG was allotted 16.5 per cent. The share of the LIG came down to 1.7 per cent in 1969-70 and then to 0.8 per cent in 1970-71. Likewise, the share of MIG in the total land allotment is found to have been fluctuating tremendously.

It is thus obvious that contrary to the policy objectives, operation of the revolving fund has distributed land in favour of the HIG. The objective of controlling and stabilising the land prices is also not found to have been achieved. Land values in some localities have gone up more than ten times in

TABLE 3 PERCENTAGE DISTRIBUTION OF DEVELOPED AREA TO VARIOUS INCOME GROUPS

Year	*Total*	*LIG*	*MIG*	*Alternative Allotment*	*Auction*
(1)	(2)	(3)	(4)	(5)	(6)
1961-62	100.0	47.6	52.4	—	—
1962-63	100.0	—	—	—	—
1963-64	100.0	7.1	4.3	—	88.6
1964-65	100.0	8.6	8.7	4.7	78.0
1965-66	100.0	2.3	2.6	4.7	90.4
1966-67	100.0	9.9	3.8	36.4	49.9
1967-68	100.0	4.9	33.9	12.0	49.2
1968-69	100.0	5.7	2.8	33.2	58.3
1969-70	100.0	1.7	35.5	16.2	46.6
1970-71	100.0	0.8	0.9	11.7	86.3
1971-72	100.0	5.5	16.5	14.5	63.5

SOURCE: Government of India, Ministry of Works and Housing, *Report of the Committee of Experts on the Assessment of the Working of Delhi Development Authority 1974-75*.

a span of 10 to 12 years. Increase of the order of 400 to 500 per cent has been noticed in most of the other localities in a span of 8 years.[6] The method of financing has thus not come handy for effectuating the programme objectives.

In fact, by its very nature, the revolving fund method of financing urban development is not likely to conform to the aforesaid two objectives. The seed capital, if it has to be revolved, must be spent in such remunerative projects which are likely to fetch higher premium at the auction. If spent in the schemes meant to serve the EWS and the LIG, the fund will not be able to be revolved. Thus due to its built-in bias for investing in remunerative projects, the revolving fund method of financing land development results in distribution of land in favour of the affluents. Since the remunerative schemes have to be sold in auction for fetching larger returns, the land values are bound to increase with a rapid pace. The price at the auction later on becomes the notional price for

[6]Gangadhar Jha, "Land Nationalisation in Delhi: A Policy Analysis", *Nagarlok*, Vol. XV, No. 2, April-June 1983, pp. 9-26.

other properties and there is an all around enhancement in land values.

The revolving fund method of financing is thus obviously beset with inherent contradictions for achieving the policy objective of subserving the needs of the EWS and LIG. There is a basic conflict between equity and efficiency (maximisation of return on investment). To quote from a stuy of Delhi's development:

> The point that needs consideration in this context is the wisdom on relying on a financing technique for urban development that automatically allocates the fruits of such endeavour to the privileged sections of the community. Since only 35 per cent of DDA's resources are internally generated, the need for organisational survival would force it to rely on funding techniques (revolving fund) that would monopolize the supply of a scarce product (developed land) which would be sold at a premium. Even if the revolving fund approach is discontinued, the improvement trust approach to urban development tends to have a built-in bias against equity and in favour of elitism.[7]

Cross Subsidy: Is it Feasible?

It is often suggested that in order to rid this financing method from its elitist bias, investment should be made in accordance with the composition of various income groups and cost recovery should be made on basis of cross subsidy. An Expert Committee while assessing the development and disposal of land by the DDA, recommended to reserve at least 50 per cent of tne plots every year for the LIG and the EWS and another 30 per cent for the MIG.[8] It is, however, forgotten that EWS and LIG together constitute about 55 to 60 per cent of the total households in urban areas. This category, in any scheme of urban development has to be served

[7]Abhijit Datta and B. Chakravarty, *Organising Metropolitan Development*, Centre for Urban Studies, Indian Institute of Public Administration, New Delhi, 1981, p. 109.

[8]Government of India, Ministry of Works and Housing, Report of the Committee of Experts on the Assessment of the Working of Delhi Development Authority 1974-75 (Mimeographed), no data, p. 66.

on the basis of subsidy. Providing subsidy at such a scale will hardly yield any return on the total investment so that seed capital could be revolved. At least in the initial years the fund, in order to be augmented, has inevitably to be invested in remunerative schemes only. Data on operation of revolving fund in Delhi (Table 3) vividly demonstrates this fact. This is so when the pricing policy in Delhi has not at all been based on the concept of cross subsidy though the DDA has repeatedly been giving an impression of allotting the land to the various income groups on the basis of cross-subsidy.

The 1961 policy on urban land which has been the guiding principle for development and disposal of land, itself did not envisage any cross subsidy. It envisaged to allot land to LIG (not the EWS which has been excluded from the scheme of land disposal) and MIG at *predermined rate* which, besides including the cost of acquisition and development, also included additional charge varying from Rs. 3 to 8 depending upon the size of the plot. This additional charge is obviously in the nature of return on capital and hence an element of profit. Auctioning of land to the HIG on the pretext of subsidising the LIG, therefore, is not justified. Even the LIG has been charged a price which is higher than the cost of development. Relocation of about a million of squatters in about 44 relocation colonies is generally cited as an example of providing subsidy to the EWS. It is, however, worth noting that the relocation of squatters has been financed through a very liberal plan grant and hence is outside the framework of revolving fund financing. Recently, the Estimates Committee of the Seventh Lok Sabha castigated the DDA in the strongest terms for including several arbitrary additional charges in the 'predetermined rate'. To quote from the report:

> Most of these charges are unjustified and unauthorised, arbitrary, excessive, smacking of profiteering, and in violation of enunciated policy tentamounting to looting the public. Expert bodies, who have examined these aspects

of disposal of land by the DDA have come to the same conclusion.[9]

Since the concept of cross-subsidy has not been tried in the operation of revolving fund, a hypothetical model has been presented in tables 1 to 6 in the Appendix to comprehend the possibility of reconciling the principles of equity and efficiency. The model has been developed keeping in view the pattern of income distribution in Delhi where EWS constitutes 17 per cent of the total population, LIG 36 per cent and MIG 32 per cent. HIG constitutes only 15 per cent of the total population.[10] An attempt has been made to see whether revolving fund is able to be revolved if land is distributed in the same ratio of these income groups. The cost of development has been taken at the rate of Rs. 340 per sq. mt. which is the reported cost by the DDA in 1982. Earmarking of land for various uses has been done following the norms suggested by the Master Plan for Delhi for a density of 100 persons per acre.[11] Price to be charged from the various income groups and for the different land uses has been worked out on the basis of cross subsidy (Table 2). commercial land is assumed to be sold in auction at a price which is four times the cost of acquisition. Lands for institutions and community facilities is to be sold at the cost price (Rs. 340 per sq. mt.). The seed capital has been assumed to be Rs. 5 crores.

With these assumptions, the model reveals that it is not possible to distribute land according to the composition of various income groups. In the first phase (Table 1), the EWS does not get anything because of the fact that if this group is to be catered for the fund would not be augmented for its ploughing back. Gradually, as and when the funds have been

[9]Estimates Committee (Seventh Lok Sabha), Eighty-Seventh Report, Ministry of Works and Housing, Delhi Development Authority, Part II, Lok Sabha Secretariat, New Delhi, 1984, p. 29.

[10]National Council of Applied Economic Reseach, *Techno-economic Survey of Delhi*, New Delhi, 1973, pp. 294-95.

[11]Parks (14%), Roads (12%), Residential (58%) together constitute 84 per cent of the land in a colony and are charged alongwith price of land; commercial use (1%), Community Facilities (1.70%) and schools and institutional use (13.30%) have been charged separately.

augmented, the EWS and the LIG groups have been given their share in land distribution subject to the paramount consideration of revolving the seed capital in different phases. As is obvious from Table 6, the five phases of land development and disposal ultimately ends up with a modest augmentation in the seed capital (three times increase) and the share of different income groups in the disposal of land has also not corresponded with the pattern of income distribution. EWS which constitutes about 17 per cent of the total population gets only about 10 per cent of the developed land. LIG which constitutes 36 per cent of the total population gets 22 per cent of land and the MIG constituting 32 per cent of the total population also gets 22 per cent of the total land disposed of. HIG, though constitutes only 15 per cent of the total population, gets the lion's share of about 46 per cent of the total land.

The model thus suggests that it is not possible to allot developed land to the various income groups in accordance with their composition in the total population if it has to be based on cross subsidy. The necessity of providing cross subsidy will dictate to give larger share to the HIG. The model, nevertheless, presents a better prospect than the distribution of land to various income groups as actualised in Delhi. It suggests that the possibility of giving subsidy to EWS and LIG could be possible but then the extent of augmentation in the seed capital would be small. This would affect the speed of land development. In five phases in the hypothetical model, only 146.81 ha. of land is possible to be developed with the revolving fund as the financing method. This is chiefly because subsidy to EWS and LIG does not permit the fund to be augmented at a speed as witnessed in Delhi. At the end of each phase, the available working capital is not substantial to embark on the development of larger areas.

Revolving Fund and the Small Towns

Could the technique of revolving fund be replicated in the small and medium towns for land development? The prospect does not seem to be encouraging. This is mainly because the demand for developed land in these towns happens to be

low. The experience of the IDSMT scheme shows that in large number of small and medium towns, developed land has been lying idle because there are no buyers for it. As undeveloped land is available in ample measure at a lower price, the price of developed land becomes prohibitive for the prospective buyers. Even the sites and services plots and the plots meant for the LIG do not find a buyer. Secondly, even if the plots could be sold, the demand being low, sale proceeds of the HIG plots would not be sufficient to provide subsidy to the low income group and the EWS. The demand for even the commercial land is not so high as to fetch a very high premium at the auction. Revolving Fund would consequently not be augmented. It, therefore, suggests that revolving fund as a technique of financing land development could be a success in the metropolitan and large cities only where the demand for developed land is sufficient to enable the fund to be augmented.

CONCLUSION

Revolving fund has been a well known and a popular technique of augmenting financial resources in business transactions. Its use in financing urban development has, therefore, brought with it also its built-in bias for channelisation of investments in remunerative and profitable schemes. The preponderance of a large segment of low income groups in Indian cities and towns, however, creates problems of equity if the technique for financing urban development happens to be revolving of the seed capital. By distributing the fruits of urban development in favour of affluents it militates against the objective of serving the needs of the urban poor.

It creates a basic conflict between equity and efficiency. Though it is possible to provide subsidy to the lower income groups but then the return on investments would be too small to embark upon an ambitious plan of massive development of land for the various income groups. What could then be method of financing land development?

If the financing method has to conform to the policy objectives and has also to serve as an instrument for translating

them, other options have to be explored and examined. In order to reduce the extent of subsidy and enable the LIG and the MIG to afford the price of developed land, the norms and standards of development shall have to be reduced. This coupled with the development of commercial and other remunerative schemes could increase the return on capital investments which could be further ploughed back for development of new areas. Working capital itself could be augmented by way of mobilising certain proportion of land premium as advance deposit for land development.

Another alternative worth exploring could be the practice of land readjustment for financing the development of land. It enables financing of land development without drawing on the public funds and has been extensively used in Korea, Japan and Australia.[12] This has been tried on the basis of cross subsidy also.[13] In view of the realities of the situation and the avowed public policy of serving the needs of the low income groups, disposal of land to EWS and LIG has necessarily to be based on cross subsidy. Delhi model of revolving fund is not likely to prove an effective financial instrument in this regard.

[12]William A. Doebele, "Land Readjustment as an Alternative to Taxation for the Recovery of Betterment: The Case of South Korea", in Roy W. Bahl (ed.), *The Taxation of Urban Land in Less Developing Countries*, University of Wisconsin Press, Madison, 1976, pp. 163-89.

[13]William A. Doebele, "Reshaping Land Readjustment to Serve the Needs of Low Income Group: The 1980 Korean Master Plan", in Doebele (ed.), *Land Readjustment: A Different Approach to Financing Urbanisation*, Lexington Books, DC Heath & Company, Lexington, 1982, pp. 213-15.

Appendix

TABLE 1 DEVELOPMENT AND DISPOSAL OF 14.5 HECTARES OF LAND, PHASE I*

Income Group	*Land Allotted (sq. mt.)*	*No. of Plots*	*Price charged (Rs.)*†	*Sale Proceeds (Rs. lakhs)*
1. EWS	—	—	—	—
2. LIG	7,569 (9.00)	108 (16.49)	10,500	11.34
3. MIG	26,912 (32.00)	299 (45.65)	36,000	107.64
4. HIG	49,619 (59.00)	248 (37.86)	2,04,000	506.10
TOTAL	84,100 (100,00)	655 (100.00)	—	625.08
Commercial	1,450	—	1,360	19.72
Institutional and CF	21,750	—	340	73.95
GRAND TOTAL	1,07,300	655	—	718.75

*Capital Investment of Rs. 4.93 crores.

†Prices relate to per plot except commercial and institutional for which if pertaining to per sq. mt.

NOTE: EWS—Economically Weaker Section.
LIG—Low Income Group.
MIG—Middle Income Group.
HIG—High Income Group.
CF—Community Facilities

TABLE 2 DEVELOPMENT AND DISPOSAL OF 21 HECTARES OF LAND, PHASE II*

Income Group	*Land Allotted (sq. mt.)*	*No. of Plots*	*Price Charged (Rs.)*	*Sale Proceeds (Rs. lakhs)*
1. EWS	10,353 (8.50)	287 (23.43)	2,700	7.75
2. LIG	21,924 (18.00)	313 (25.55)	10,500	32.87
3. MIG	29,232 (24.00)	324 (36.45)	36,000	116.64
4. HIG	60,291 (49.50)	301 (16.57)	2,04,000	614.04
TOTAL	1,21,800 (100.00)	1,225 (100.00)	—	771.30
Commercial	2,100	—	—	28 56
Institutional and CF	31,500	—	—	107.10
GRAND TOTAL	1,55,400	1,225	—	907.22

*At a capital investment of Rs. 7.14 crores.

TABLE 3 DEVELOPMENT AND DISPOSAL OF 31.16 HECTARES OF LAND, PHASE III*

Income Groups	*Land Allotted (sq.mt.)*	*No. of Plots*	*Price Charged per sq.mt. (Rs.)*	*Sale Proceeds (Rs. lakhs)*
1. EWS	15,504 (8.50)	430 (22.34)	2,700	11.61
2. LIG	32,832 (18.00)	469 (24 36)	10,500	49.25
3. MIG	58,368 (32.00)	648 (33.66)	36,000	233.28
4. HIG	75,696 (41.50)	378 (19.64)	2,04,000	771.12
TOTAL	1,82,400 (100.00)	1,925 (100.00)	—	1,065.26
Commercial	3,146	—	1,360	42.59
Institutional and CF	47.190	—	340	160.65
GRAND TOTAL	2,32,736	1,925	—	1,268.50

*At a capital investment of Rs. 10.70 crores.

TABLE 4 DEVELOPMENT AND DISPOSAL OF 37.30 HECTARES OF LAND, PHASE IV*

Income Group	*Land Allotted (sq.mt.)*	*No. of Plots*	*Price Charged (Rs.)*	*Sale Proceeds (Rs. lakhs)*
1. EWS	27,578 (12.75)	768 (31.17)	2,700	20.74
2. LIG	58,401 (27.00)	834 (33.35)	10,500	87.57
3. MIG	34,608 (16.00)	384 (15.58)	36,000	138.24
4. HIG	95,713 (44.25)	478 (19.40)	2,04,000	975.12
TOTAL	2,16,300 (100.00)	2,464 (100.00)	—	1,221.67
Commercial	3,730	—	1,360	50.73
Institutional and CF	55,950	—	340	190.23
GRAND TOTAL	2,75,980	2,464	—	1,462.63

*At a capital investment of Rs. 12.68 crores.

TABLE 5 DEVELOPMENT AND DISPOSAL OF 43 HECTARES OF LAND, PHASE V*

Income Group	*Land Allotted (sq.mt.)*	*No. of Plots*	*Price Charged (Rs.)*	*Sale Proceeds (Rs. lakhs)*
1. EWS	31,799 (12.75)	883 (31.11)	2,700	23.84
2. LIG	67,338 (27.00)	961 (33.86)	10,500	100.91
3. MIG	39,904 (16.00)	443 (15.61)	36,000	159.48
4. HIG	1,10,359 (44.25)	551 (19.42)	2,04,000	1,124.04
TOTAL	2,49,400 (100.00)	2,838 (100.00)	—	1,408.27
Commercial	4,300	—	1,360	58.48
Institutional and CF	64,500	—	340	219.30
GRAND TOTAL	3,18,200	2,838	—	1,686.05

*At a capital investment of Rs. 14.62 crores.

TABLE 6 ALLOTMENT OF TOTAL LAND AREA TO VARIOUS INCOME GROUPS

(*in sq. mts.*)

	EWS	*LIG*	*MIG*	*HIG*	*Total*
Phase I	—	7,569	26,912	49,619	84,100
		(9.00)	(32,00)	(59.00)	(100.00)
Phase II	10,353	21,924	29,232	60,291	1,21,800
	(8.50)	(18.00)	(24.00)	(49.50)	(100.00)
Phase III	15.504	32,832	58,368	75,696	1,82,400
	(8.50)	(18.00)	(32.00)	(41.50)	(100.00)
Phase IV	27,578	58,401	34,608	95,713	2,16,300
	(12.75)	(27.00)	(16.00)	(44.25)	(10 000)
Phase V	31,799	67,338	39,904	1,10,359	2,49,400
	(12.75)	(27.00)	(16.00)	(44.25)	(100.00)
TOTAL	58,234	1,88,064	1,89,024	3,91,678	8,54,000
	(9.98)	(22.03)	(22.13)	(45.86)	(100.00)

Municipal Resource Base for Financing of Capital Projects and Operation and Maintenance Expenditure

*G. Thimmaiah**

INTRODUCTION

Several studies and committee reports have confirmed the general pattern of the financial problem faced by urban local governments all over the world. This general pattern indicates that the urban local governments are facing inadequacy of resources for meeting their growing expenditure needs.[1] This is much more so in developing countries where the national governments have not come to the rescue of the urban local governments as much as their counterparts have done in developed countries.

There is no need to make repeated references to the increasing financial requirements of the urban local governments as it is an established fact. It is also becoming increasingly evident that the financial problem of the urban local governments in India will very soon manifest itself in the form of a nationwide urban local governments' financial crisis. This is mainly because of the very rapid growth of urban population. We will very likely find that about 40 per cent of India's population will start living in urban centres by the end of this century. This should open our eyes right now to plan not

*Director, Institute of Economic and Social Change, Bangalore.

[1]See for the latest assessment L.J. Sharpe (ed.). *The Local Fiscal Crisis in Western Europe,* Sage Publications, London, 1981 and Roy Bahl, (ed.), *Urban Government Finance: Emerging Trends,* Sage Publications, Beverly Hills, 1981.

only for proper urban settlements but also to provide minimum urban public services to these people. A widely used method of estimating the financial needs of the urban local governments is to apply the unit cost 'norm' of supplying urban public services to the urban population. This has been in practice in India also. By using this method, several estimates have been made about the financial requirements of urban local governments in India. However, a new wave of centralisation of local resources and functions has started in many countries. This has emerged not as a solution to the urban local financial crisis but has been mostly dictated by other factors.

EMERGING PATTERN OF URBAN LOCAL GOVERNMENT FUNCTIONS AND RESOURCES

There has been a tendency towards centralisation of local sources of revenue as well as local government functions in the developed as well as developing countries. In many developed countries there has been a conscious reallocation or centralisation of both sources of local revenue and local functions and responsibilities. This pattern has also spread to urban local governments in India which is only a reflection of the global phenomenon.[2] Several reasons have contributed to this emerging pattern of centralisation.

Experience has shown that local government revenues have not been properly exploited in India by both municipalities and panchayati raj institutions for various reasons. Of the various excuses given, archaic administrative set-up and corruption are the most common. But a more important institutional barrier has not been recognised by social scientists. At the local level, political leaders are very near to their voters. Voters have organised themselves into 'pressure groups'. Consequently, political leaders hesitate to antagonise the voters by levying tax on them. Voters resist increased tax burden mainly because of the operation of fiscal illusion.

A common fiscal illusion created at the local level is that

[2]See Johannes F. Linn, "Urban Finances in Developing Countries", in Roy Bahl (ed.), *Urban Government Finance: Emerging Trends*, Sage Publications, Beverly Hills, 1981, pp 245-83.

taxes are paid to receive proportionate benefits from the concerned government. It is very difficult to convince the voter-tax-payers that while payment of tax is individual's responsibility, the benefits accruing through local level expenditure are mostly collective. Therefore, individual voters feel that they are losing their income in the form of taxes without receiving proportionate benefits. This fiscal illusion is further strengthened by the deteriorating urban public services like inadequate water supply, piling up of garbage, absence of public urinals, etc. While this may be a common fiscal illusion at all levels of government, the intensity of it is more at local government level. Hence the philosophy of financial decentralisation should take into account this fiscal psychology of the voters and their behaviour, particularly at the local government level. Consequently at the local level, the voter-tax-payers have started resisting increases in the rates of taxes. This is the main reason for the failure on the part of the local governments to tap even the meagre sources of revenue allotted to them.

This is the reason for the failure of municipalities to revise property tax and restructure the rates to tax the true value of urban property. In states like Kerala, entertainment tax, which has been assigned to local governments, has hardly been tapped. This was so in the case of entertainment tax and professional tax in Karnataka. Under these circumstances, the higher level governments like state and central governments tend to believe that the local governments are becoming 'softest' states and ask for grants from above. Realising this position, the state governments have started taking over the power to levy tax on motor vehicles, entertainment tax, profession tax and the like. For example in Karnataka, profession tax, motor vehicle tax and entertainment tax were not properly exploited by urban local governments. Therefore, the state government has taken over the administration of these taxes.[3] In return, the state government has been paying compensatory grants to the concerned urban local bodies equivalent to the amount which they were collecting at the

[3]*Report of the Taxation Review Committee 1981: Part II, Report on Local Finances*, Government of Karnataka, Bangalore, 1983.

time of taking over these sources. This means the compensatory grants themselves have become very meagre over time.

Similarly there is also a tendency towards centralisation of some of the urban local government functions. This is again a worldwide phenomenon as this trend is evident even in other countries. In fact, there has been a suggestion to reconsider the traditional allocation of some of these local functions. Local government functions which have come to be centralised in some states include education, a part of public health functions like hospitals, water supply and sewerage. These functions were once considered solely the responsibility of the urban local governments. But today some of them have been transferred to higher level governments, mostly to the state governments, for various reasons. They include: (1) inefficiency and poor quality of services rendered by local governments, which has been in turn a reflection of their inadequate resources, (2) the economies of scale created by the emergence of new technology which is available for use in the provision of certain local public services like water supply and sewerage; and (3) huge capital investments required to undertake some of these services at reasonable costs by exploiting economies of scale created by new technology.

Likewise, because of the complexities involved in managing certain public services like water supply and sewerage in the context of increased size of population and the need to adopt advarced technology with a view to reducing unit cost of operation, centralisation of this function has been justified. The adoption of such new technology requires much bigger area of operation and population threshold. Consequently functions which were once considered as purely local pertaining to small area of operation and population threshold, have come to be accepted as state level functions. In some states, some of these functions have been transferred to autonomous bodies or boards thereby creating what has come to be called 'fiscal fragmentation'. While it is too early to judge the efficiency of their operation, this tendency to transfer the local functions to autonomous bodies has encouraged centralisation. In Karnataka for example, education has been taken over from the urban local governments mainly on the ground that the municipal schools were not maintaining adequate stan-

dards partly on account of lack of resources to pay competitive salary to the teachers. On the same ground, municipal hospitals have been taken over by the state government.

In the case of water supply and sewerage, it was felt that these activities may be advantageously undertaken by higher level government which can mobilise adequate funds and reap the economies of scale by managing water supply for the entire urban areas of the state. Consequently, separate agency has been created by Karnataka Government for water supply and sewerage. As a result, these two functions have been transferred or taken over by state government agency. Even in the case of street lighting because of the failure of municipalities to pay electricity bills, responsibility for providing street lighting is also proposed to be taken over by the state government. Consequently urban local governments are left with street cleaning, regulating and licensing of shops and other establishments, licensing animal drawn vehicles and the like. Obviously these functions do not require substanial capital funds. Therefore, it is felt that the existing sources of revenue may be adequate for urban local governments to look after these limited functions.

Thus, on the one hand the fiscal psychology of voters compels the political leaders and planners to allow centralisation of local revenue sources and on the other hand, technological advances compel the higher level governments to take over local functions. The inevitable implication of this emerging pattern in the reallocation of functions and resources of urban local governments is that their need for capital investment will go down and even the pressure on current revenues will ease. In other words, the urban local governments need not worry about raising huge capital funds to undertake capital works such as water supply, etc. They should try to improve the quality of essential civic services which will be left with them. This emerging trend needs to be kept in mind while discussing the resource base of the municipal governments in India.

EXISTING AND EMERGING SOURCES OF REVENUE

Various suggestions have been made to augment the financial resources for financing the capital projects and operation

and the maintenance expenditure of the urban local governments. They include: (1) exploiting existing sources of revenue to the hilt; (2) increasing the grants from the higher level governments; (3) integrating the financial needs of the urban local governments into Finance Commission's recommendations; (4) creation of new financial institutions like Urban Development Finance Corporation, and (5) making central and state governments to share part of elastic sources of revenue with the local governments.

Exploiting the Available Sources of Revenue

In developing countries like India, major sources of revenue of the urban local governments are property tax, octroi and utility or civic service charges. In India, there has been almost an agitation against octroi. As a result some states like Gujarat, Karnataka and Madhya Pradesh have abolished octroi as a matter of policy. In its place, entry tax or surcharge on sales tax has been introduced. But the revenue from these substitute sources has not been transferred to the urban local governments. Instead, state governments are paying compensatory grants to the municipalities out of these proceeds equivalent to the amount of octroi revenue collected at the time of abolition. Thus the urban local governments are not allowed to raise revenue from either their originally indicated sources like octroi or their substitute sources which have been levied. This would mean that the local governments have lost an elastic source of revenue to please the transport operators and traders.

The property tax is no doubt a major source of revenue for the urban local governments today. But here again for various reasons, it has not been fully exploited. Firstly, in cities, property tax and the Rent Control Act come in conflict which has discouraged the local government to revise the rates. Secondly, the valuation of property is not rationalised based on modern methods of real estate valuation. Though there has been suggestions by various committees to create state level valuation authorities for the purpose, no action has been taken by the state governments except West Bengal. Thirdly, even periodical rate hikes have been resisted by the

local residents because of the operation of fiscal psychology and political sociology of the voters.

Utility or civic service charges include water charges, education cess, health cess, licence fee, etc. These sources are not elastic to the changes either in population or income and hence the yield has been stagnant. Consequently the only substantial source of revenue for local governments continues to be property tax. But the state governments have to give their concurrence for the revision of property tax rates. This is a political decision and therefore, it reinforces the operation of political pressure groups' psychology to thwart any efforts on the part of the urban local governments to increase their revenue from this source. Therefore, there is no use in repeating that property tax should be revised to yield more revenue. Unless institutional barriers are removed, it will be very difficult for them to raise enough revenue from these sources. Even otherwise, this one source alone will not be enough to yield adequate revenue to meet the increasing expenditures even under left-over limited functions.

Grants from the State and Central Governments

Currently the state governments have been providing maintenance grants for partly meeting establishment charges of the urban local governments. But they are inadequate. It has been maintained that when the state governments themselves are facing financial crisis, it will be unrealistic to expect them to provide more financial assistance to the local governments. Therefore we should not expect any substantial increase in the grants from the state governments in the near future.

As far as the central government is concerned, it has not been making any grants on continuous basis to urban local bodies. This indifferent attitude should not be allowed to continue for long. Central government will have to be persuaded to shoulder the responsibility of financially assisting urban local governments on a regular and rational basis as its counterparts have started doing in many developed countries.

Integrating the Fiscal Needs of Urban Local Governments with those of the States

In almost all developed countries, Central governments have come to the rescue of urban local governments, particularly in the wake of their fiscal crisis originating from global inflation. But this has not happened in developing countries mainly because of the central governments' pre-occupation with rural development through national plans. This is very much true of India. It is again dictated by the political sociology operating in Indian politics. Since a majority of the voters are residing in rural areas, rural poverty constitutes a major chunk of the mass poverty. Therefore, the central and state governments are concentrating their efforts on rural development. Rural local governments like panchayats, taluka boards and zilla parishads have been used to channel various benefits flowing from various developmental programmes to the rural poor. These local governments have been made to function as only channeling agencies rather than fullfledged local governments. In other words, these sub-state local governments have become local organisations only for political participation. Consequently, the urban local bodies have been left high and dry by both state and central governments. The recent submission of some state governments to the Eighth Finance Commission for taking into account the urban local governments' financial requirements for providing certain essential public services has gone on deaf ears. This would only indicate that the role of central government in meeting the financial requirements of the urban local governments has not yet been properly identified. The state governments which are themselves in fiscal crisis have not been able to do much in this area. Therefore, the urban local governments' hope is to revive the philosophy of self-financing services if they want to provide public services to the local residents and create a national opinion to force the central and state governments to agree to share the yield from union excise duties and sales tax with the urban local governments.

It may be noted here that in USA, the federal government which did not evince much interest in assisting the local governments for a long time on a large scale, decided to come to their rescue in the 1970s. This was forced by the

unprecedented inflation which created fiscal crisis for most of the urban local governments in America. The Johnson administration started the debate on this issue and the Nixon administration implemented it in 1972. General Revenue Sharing was introduced in 1972, to save the state and local governments from the fiscal crisis of 1970s. State Local Fiscal Assistance Act of 1972, authorised the federal government to transfer \$ 30.2 billion to state and local governments. All the 50 states were required to transfer two-thirds (\$ 30.2 billion) for the purpose of the local governments in the USA. Though the amount of grants finally transferred to the urban local governments constituted only 3.4 per cent of the local revenue, general revenue sharing scheme made a bold beginning for the federal government assistance to the urban local governments. The scheme provided grants to the local governments for specific purposes. This scheme has been continued even after 1977.

In addition to this, 25 state governments allow 4,294 local governments to levy general sales tax and 10 state governments allow 4220 local governments to levy personal income tax in USA. Other local governments levy one per cent surcharge on the state income tax and/or sales tax.[4]

In the Federal Republic of Germany, the Constitution requires the federal government to share revenue from the wage tax and assessed income, which together constitute personal income tax, with state and local governments in the following proportions: 14 per cent to local governments, (Communes); 43 per cent to state governments (Landers), and 43 per cent to federal government. Besides, the federal government gives grants to the local governments for road building from the yield from federal tax on petrol.

In Switzerland, Cantonal governments allow their local governments (Communes) to add surcharge to the Cantonal income and wealth taxes.

In Australia, the federal government has been assisting the local governments through specific purpose grants and loans. But the most encouraging arrangement came into effect in

[4]Bernard P. Herber, *Fiscal Federalism in the United States of America*, Research Monograph No 10, Centre for Research on Federal Financial Relations, Canberra, 1975, pp. 19-20.

1976 when the federal government decided to share a portion of the yield from federal income tax with the local governments.

Under the local government (Personal Income Tax Sharing) Act of 1976, the Commonwealth government provided the grants for local governments in the form of tax sharing. The share of the state governments, which was fixed at one-third of the federal income tax yield, was made conditional upon the state governments passing a part of it to the local governments. In effect, 1.52 per cent of the personal income tax revenue was passed on the local governments. The Commonwealth Grants Commission was asked to recommend the *basis of* distributing this proportion among local governments. Commonwealth Grants Commission recommended that it should be distributed partly on per capita basis and partly on equalisation basis. In fact the Local Government (Personal Income Tax Sharing) Act of 1976, itself laid down two conditions for distributing the local government share: not less than 30 per cent of the total amount allocated to the state governments should be distributed among the local government authorities on population basis, which may take into account the size, density and other relevant matters and the remainder may be allocated on general equalisation basis. It also required that all the state governments should appoint State Grants Commissions which should examine the financial requirements of their respective local authorities and recommended the distribution of federal income tax share allocable to the local governments in addition to the grants that the state governments might decide to make. Accordingly all the state governments have appointed State Grants Commissions to recommend annual transfers from the state governments to the local governments.[5]

In India, the Finance Commission assesses the financial requirements of the state governments once in five years and it is supposed to recommend transfer of a portion of the yield from income tax and union excise duties in the form of tax shares and grant-in-aid to the states. While so doing,

[5]Russell Mathews, *Autralian Federalism: 1977*, Centre for Research on Federal Financial Relations, ANU, Canberra, 1978, pp. 118-36.

it has been taking into account the financial requirements of the state governments on non-plan current account which includes expenditure on law and order, police, justice, draught relief debt servicing, maintenance, etc. In addition to these, in recent years, Finance Commissions have also been asked by the central government to recommend earmarked grants for upgrading administrative services of the state governments. But the Finance Commissions have not been taking into account the financial requirements of urban local governments. This time the governments of Maharashtra, Uttar Pradesh, West Bengal and Tamil Nadu requested the Eighth Finance Commission to consider their plea for taking into account their special financial needs on account of increased urbanisation and upgradation of urban public services while determining their net budgetary gaps.[6] But the eighth Finance Commission declined to consider their request. Therefore, it is necessary to convince the central government to include this requirement as a part of the terms of reference of the next Finance Commission. The financial requirements of urban local governments will have to be built into the financial transfers from the central government to the state governments. This has become necessary because of the refusal on the part of the Eighth Finance Commission to take into account the states' request to include their commitments for urban local bodies.

As a part of this scheme, we may suggest sharing of elastic revenue with the local governments in order to pull them out of fiscal crisis. Tax sharing should be linked to the growing revenue sources of central and state governments, which will make financial transfers elastic. Time has come that we should convince the central government to share at least 5 per cent of the net yield from union excise duties with the urban local governments. The Eighth Finance Commission has recommended 40 per cent of the net yield from union excise duties to be transferred to all the states, but another 5 per cent of the net yield has been recommended to be distributed only among net deficit states. This procedure has

[6]*Report of the Eighth Finance Commission*, Government of India, New Delhi, 1984.

invited critical comments from fiscal experts.

The Finance Commission has not justified the need to increase the states' share of union excise duties. Instead of doing this, the eighth Finance Commission should have recommended 5 per cent of the net yield from union excise duties to be transferred to the states for distribution among their local governments. This would have justified the increase in the states' share in union excise duties. It may be observed that both the union and the state governments have been collecting enormous amounts of indirect taxes from the urban people. But both of them have not been adequately assisting the urban local authorities to enable them to provide essential civic facilities. Therefore, time has come to demand that the central government should transfer 5 per cent of the net yield from union excise duties to the local governments through the states.

The state governments have been collecting increasing amount of sales tax revenue from the urban centres. In fact, the yield from sales tax in Bombay city constitutes almost 50 per cent of the yield from sales tax in Maharashtra. More or less similar trend is observed in West Bengal and Tamil Nadu. Since these governments are collecting huge amounts of taxes from urban people living in major cities and towns in their states, they should be convinced of their responsibility for providing essential local public services. Therefore, the state governments should be compelled to share atleast 5 per cent of the net yield from sales tax collected from urban centres, (to start with from the state capital cities), with the urban local governments. This will enable the urban local governments to augment their resources and raise the quality of the limited number of public services which are left with them.

UNEASY CASE FOR LOAN FINANCING

While capital expenditure for undertaking some of the public services like water supply and sewerage will have to be raised through loans, local governments hesitate to recover fully the cost of supplying water or other facilities from the beneficiaries. In almost all developing countries local public services are rendered at cost and as a result have encouraged

borrowing for the purpose. But in India the tendency is to provide public services free of cost or at nominal charges. This has discouraged lending institutions from advancing loans for urban public services. Even the World Bank is backing out from such ventures. Therefore, any discussion about resource base of the municipal bodies will have to take into account these mundane problems. Absence or failure to recover costs from the beneficiaries of the services has been partly responsible for fiscal crisis of the urban local governments in India, and it cannot be repaired by merely searching for new sources of revenue for them.

Under these circumstances the idea of creation of Urban Development Finance Corporation does not appear to be practicable. The idea is no doubt very attractive and in line with the international experience.[7] But in India, mere creation of an independent Urban Development Finance Corporation to finance urban governments will not make capital funds available unless the central and state governments are prepared to subscribe to its capital. This is because, ordinary public do not subscribe to even central government loans, let alone municipal bonds. The idea of creating Urban Development Finance Corporation will not solve the basic capital resource problem. In any case, wherever fiscal fragmentation has been used by the urban local governments in the form of creating autonomous bodies to render some public services like Bombay Electricity Supply and City Transport Services, they are bound to borrow from financial institutions on the basis of their repaying capacity. Therefore, there seems to be little scope and justification for creating Financial Corporation exclusively for financing urban local government services. Past experience has shown that creation of such separate corporations has resulted in wastage of available resources on establishment charges. In any case, in view of the fact that many urban local governments are shedding some of their traditional services like water supply and sewerage which require capital investments, there is no need for such separate Urban Development Finance Corporation. What is required

[7]Gangadhar Jha, "Financing Urban Development", *The Economic Times*, December 7-8, 1984.

is adequate resources for operation and maintenance of the essential local public services which are left with urban local government in India. For this it is necessary to convince the central and state governments to share 5 per cent of the yield from union excise duties and sales tax respectively with the urban local governments in the near future.

Municipal Financing of Urban Development: Experiment in Metropolitan Calcutta

*Abhijit Datta**

With the establishment of the Calcutta Metropolitan Development Authority (CMDA) in 1970, urban development in the Calcutta Metropolitan Area (CMA) received an impetus that was unprecedented since independence. After the finalisation of the Basic Development Plan (BDP) for the CMA, it could not be implemented immediately mainly due to the inadequate institutional and fiscal commitment for the CMA. The creation of the CMDA marked a departure from the governmental inaction to arrest, if not to improve, the rapid deterioration of urban faclities and services. However, instead of improving the 30-odd municipal authorities in the CMA to undertake urban development in the largest conurbation of the country, the decision was to create an entirely new special authority for metropolitan development (*i.e.*, the CMDA) where local and state-wide public organisations were functioning in a chaotic manner.

The resultant institutional problems that the CMDA faced since its creation have been highlighted elsewhere;[2] here we would focus on the implications of this institutional choice on the municipal fiscal participation in urban development of the CMA by examining: (*a*) the major issues in municipal finance, (*b*) thc nature of fiscal assistance to the municipal authorities for urban development, and (*c*) the extent of

*Professor, IIPA, New Delhi.

[1]West Bengal (CMPO), *Basic Development Plan for the Calcutta Metropolitan District, 1966-86*, Calcutta, 1966.

[2]Abhijit Datta, "Organisation for Urban Development in Metropolitan Calcutta", *Nagarlok*, Vol. XVI, No. 3, July-September, 1984.

municipal internal resource mobilisation. A concluding section summarises the experience.

MAJOR ISSUES

The major problems arising out of the CMDA's style of Urban Development in the CMA in the early eighties may be indicated as follow:[3]

Municipal Maintenance Gap

The practice of the CMDA undertaking investments unrelated to the maintenance capability of the municipal authorities led to a situation where about 50 per cent of the current municipal expenditure needed to be spent on maintenance of newly-created assets apart from meeting loan liabilities. Under prevailing fiscal arrangements this could not be sustained through municipal efforts.

Neglect of Local Infrastructure

Although major investments in metropolitan infrastructure were made, corresponding local infrastructure investments were neglected as these were supposed to be undertaken by the municipal authorities.

Spatial Inequities

Investments were concentrated in the metro-core ($\frac{2}{3}$) to the neglect of the peripheral areas ($\frac{1}{3}$), although these experienced a more rapid population growth.

Neglect of the Urban Poor

Since the peripheral areas contained relatively more urban poor (60%) than the metro-core (50%), the uneven nature of spatial development discriminated against the urban poor in a relative sense.

Underutilisation of Existing Institutions

A direct result of the CMDA's overbearing presence made

[3]For details, See, World Bank, *Making Municipal Development Work: The Calcutta Experience*, Report No. UDD 48, Washington, DC, 1984. The present paper relies heavily on this report for much of the detailed information contained in it.

the existing public institutions, including the municipal authorities, atrophied and under-utilised.

While the existence of the municipal maintenance gap could be identified as a direct impact of the CMDA operated urban development on the municipal finances in the CMA, other consequences, such as, inadequate municipal infrastructure, spatial distortions in investments, relevance of such investments for the urban poor, and underutilisation of organisation and fiscal capacities of the municipal authorities could be regarded as indirect consequences.

Municipal finances in West Bengal were examined in 1982 by a state-level Municipal Finance Commission (MFC) and the following extract from the report sums up the situation:

> There is no overall principle or set of principles in regard to municipal finance in the state and it appears that levels of service, administrative performance, resource mobilisation and financial management do not show any clear pattern and cannot be related to any simple criterion as the size of the municipality either in terms of population or in terms of area. The dependence on property tax is evident in all cases but no serious attempt has been made at any level to improve the assessment and collection procedures. The sources of income other than property tax have not been exploited adequately. The result is increasing dependence on transfers from the State Government.[4]

On top of this, the municipal authorities had a deadweight debt burden, including about Rs. 12 crores owing to the CMDA for transferred projects. On the recommendation of the MFC, the State Government rescinded the outstanding municipal debts to the CMDA, but the task of streamlining municipal finance called for improvements in their revenue and plan budgets simultaneously.

TRANSFER ARRANGEMENTS

The MFC suggested lessening of dependence on ad hoc

[4]West Bengal, *Report of the Municipal Finance Commission*, Calcutta, 1982. p. 111.

state subventions by the municipal authorities and improvements in their fiscal performance through: (*a*) improved internal revenue mobilisation, (*b*) installation of an incentive-linked system of state transfers, and (*c*) linking development assistance to improvements in internal revenue efforts. Subsequent thinking, prodded by the World Bank experts, has established a Revised Grants Structure (RGS). This is in operation from fiscal year 1983.

REVISED GRANTS STRUCTURE

The RGS sets out annual revenue account performance targets for each municipal authority and the achievement of these targets triggers the subsequent year's plan allocations with over and under-achievement determining their size and composition. This is done by classifying the municipal authorities into three groups in terms of past domestic revenue performance: average, below-average and above-average, with corresponding revenue targets fixed for each authority. The revenue targets are set against independently worked out norms of current expenditure for each municipal authority on the basis of past trends and assured growth rates in their relevant components, including asset maintenance and loan servicing. The difference between the desired current expenditure and targeted domestic revenue performance constitutes the revenue grant component. Any shortfall in domestic revenue performance would result in increased revenue grant, but loss of development assistance in the subsequent year. Similarly, meeting the domestic revenue target would entitle a municipal authority to the normal level of development assistance on a $\frac{2}{3}$ grant and $\frac{1}{3}$ loan basis. Finally, exceeding the domestic revenue target would entitle a municipal authority to a bonus loan assistance, in addition to the normal development assistance. While the current expenditure levels are worked out for a medium-term (5-years) period, the revenue targets and performance would be fixed annually, so that level jumping from one group to another is possible.

The advantage of the RGS is that the municipal authorities are allowed to develop at their own pace and are not overburdened with assets that are beyond their capacity to

maintain. However, several snags in the arrangement are also noticeable. For instance, it is not yet clear how far it would be practicable to deny development assistance to a municipal authority due to lack of its revenue efforts. Secondly, for the specially disadvantaged municipal authority, due to backwardness, there is a need for a more liberal system of development assistance. Thirdly, a minimal upgradation of municipal services throughout the state for major items of municipal infrastructure may be desirable through the operation of separate state-sponsored schemes. Fourthly, the state authorities would have to revamp their own organisational capabilities to evaluate, watch, execution, and assess the impact of plan projects, apart from monitoring municipal revenue efforts. Finally, handling of purely loan-financed schemes would call for professional finance expertise not always available within normal government departments. Experience on all these counts needs to be gained from the field before one could assess the effectiveness of the RGS now in operation in the CMA municipal authorities.

PROJECT APPRAISAL

Project appraisal for the Municipal Development Plan (MDP) in the CMA Municipal authorities is being done by the CMDA laying down appropriate physical design standards and sector service delivery norms. The municipal authorities are required to send relevant information regarding their project proposals in terms of an appraisal format for submission to the CMDA. These are shown in the Appendices. It may be seen that the approach is to plan for realistic and relevant standards with a concern for the urban poor. These are matched by a streamlining of the project approval process so that estimates upto Rs. 10,000 would not need prior sanction, for the rest the total time required would be within 50 days. There is also provision for sectoral quarterly physical and financial progress report for monitoring during project implementation.

In designing the MDP project appraisal system, the conventional investment appraisal techniques for the public and semi-public services, *viz.*, the cost effective and cost-benefit

analytical tools, are not in the use as because the cost of specific projects are modest and undertaking of such sophisticated appraisal techniques would not be economical. Nevertheless, for loan-financed commercial projects under markets, utilities, or land trading, it would be desirable to go in for cash flow analysis and pricing commitments. It appears that the existing MDP system of project appraisal would need further modification once some of the more successful municipal authorities in the CMA gets entitled to bonus loans assistance in terms of the RGS discussed earlier.

MDP INVESTMENT SIZE

Out of a total plan allocation of about Rs. 330 crores in the CMA during 1983/84 to 1937/88, Rs. 42 crores are allocated for completion of spill-over schemes, the rest (*i.e.*, Rs. 228 cores) is divided between the state agencies (67%) and the CMA municipal authorities (33%). This indicates a separation of metropolitan-wide and local-level (ward-level) in the two corporation areas tasks in terms of urban planning and implementation. Within the metrocore it has not yet been possible to completely separate the metropolitan and city-level tasks in Calcutta and Howrah, especially due to the retention of the two city improvement trusts. For all practical purposes these trusts are functioning as agencies of the CMDA. This partly explains why the share of the municipal sector investment is less than the originally envisaged target of 50 per cent. The current MDP allocations for the municipal authorities for a five-year period starting from 1983/84 are shown in Table 1.

Although metropolitan development work started in the CMA as early as 1970/71 with the creation of the special fund during the 4th Plan period and continued during the 5th Plan under the IUDP scheme, it is only during the middle of the 6th Plan that the municipal authorities are actively involved in planning and execution of their own schemes under the MDP. This has been made possible by separating the state and municipal sectors in metropolitan development, as explained earlier. It is claimed that an attempt of this

1983/84 TO 1987/88

Sectors	*Amount (Rs. lakhs)*	*Percentage*
Water Supply	1,987.65	21.15
Drainage	2,048.00	21.79
Conversion of Service Privies	888.69	9.45
Solid Waste Management	599.69	6.38
Bustee Improvement	1,241.21	13.20
Roads and Street Lighting	1,896.12	20.17
Markets	496.25	5.28
Parks and playgrounds	170.73	1.82
Community Halls	25.41	0.27
Miscellaneous	45.98	0.49
	9,400.00	100.00

SOURCE: World Bank, *op. cit.*, Table 9.

nature is made for the first time in India.[5]

The municipal-wise investment allocations were made in terms of their population size within the CMA, and where in the municipal authorities are responsible for determining their sector priorities, project planning and implementation.[6] This is subject to two qualifications: (*a*) since the actual release of funds are being linked to municipal revenue performance in the earlier year, it is not yet clear whether the initial allocations would in fact be available to them, and (*b*) due to institutional crowding at the metrocore, a logical separation there between the state and the municipal sectors has not taken place as yet. This may be a future flash point of conflict, especially after the municipal election in Calcutta.

MUNICIPAL RESOURCE MOBILISATION

A comparison between the MFC projected and the CMDA targeted municipal internal revenue and recurrent expendi-

[5]World Bank, *op. cit.*, p. 14.

[6]The sectoral programmes are screened in terms of clear defined guidelines relating to existing deficiencies suggested norms for project formulation.

ture during fiscal 1983 shows that in case of Calcutta both the revenue and expenditure targets were increased, while for the rest 37 municipal authorities the increased in targets over projection for internal revenue took place in case of only 9 municipal authorities, while for 28 municipal authorities these decreased to a varying extent. The difference between the target and projection of municipal recurrent expenditure was, however, slight; apart from Calcutta, only in case of 1 municipal authority there was a decrease (Table 2). This means that, by and large, the CMDA targets fell short of the projected municipal revenue estimates of the MFC. In the light of this experience it is not quite correct to claim that there has been an increase in the municipal revenue performance during 1983-84.[7] More specifically, for Hooghly-Chinsurah the claim that its collection has increased by 20 per cent has to be discounted when we find that in fact its internal revenue target was reduced by more than Rs. 7 lakhs.

In the absence of detailed breakdown of the projected estimated of CMA municipal internal revenue it is difficult to pinpoint whether the shortfall in the targets pertain to property taxation or other internal revenue sources; however, in view of the predominant position of property taxes in the CMA municipal revenue structure it would appear that major shortfall took place in property tax collection. This is a curious situation when the state-level Central Valuation Board (CVB) is actively involved in this area, apart from the state Directorate of Local Bodies (DLB) which is the designated authority for monitoring municipal revenue performance and release of revenue grants.[8]

We now turn to a review of the revenue prospects of the main items of municipal taxes, fees, charges, and profits from remunerative enterprises within the CMA in the near future, *i.e.*, up to 1987/88 when the present MDP ends.

PROPERTY TAXATION

In the immediate future, the revenue mobilisation prospects

[7]World Bank, *op. cit.*, p. 33.
[8]*Ibid.*

of property taxes lie in streamlining its administration at the municipal level. This has been recognised by the formulation of the RGS and the enhanced role of the DLB and the CVB in this regard. Inspite of claims to the contrary, the actual record of success in this area remains to be achieved now; otherwise the entire scheme of municipal plan assistance devised by the CMDA will collapse. The problem here is not technical, but of administration.

FEES

Almost all the CMA municipal fees are either minor or in the nature of administrative charges for licencing and regulation, as such the prospect of substantial increases in revenue through a rationalisation of fee structure may not be quite productive. The only exception here is the newly introduced automobile parking fee which would generate reasonable amount of municipal revenues if the facilities are properly planned and its administration streamlined.[9]

CHARGES

The only candidate for priced service in the CMA municipal situation where all major urban utilities are run by parastatal undertakings, is water supply. Recently, there is a provision of a 50 per cent surcharge on non-domestic property assessment for water supply used in commercial and industrial premises. In addition, if adequate charges for water is made for household consumption over a minimum and also for non-domestic uses such that adequate number of standpipes could be provided for consumption and other public uses, including fire services, drainage and sewerage, the need for subsidising potable water from the general municipal revenue would disappear. However, the constraints are to be borne in mind: (*a*) action in this regard has to be taken in all the municipal authorities in the state so that obvious differences in inter-municipal water pricing does not exist, and (*b*) in the

[9] Tapan Banerjee, "Municipal Resource Mobilisation: Some Thoughts", paper presented at the seminar on *Municipal Resources Mobilisation*, Calcutta, October 4-5, 1983.

TABLE 2 PROJECTED AND TARGETED INTERNAL REVENUE AND RECURRING EXPENDITURE OF CMA MUNICIPAL AUTHORITIES, 1983-84

(*Rs. in lakhs*)

Municipal Authorities	*Internal Revenue*			*Recurring Expenditure*		
	Projected	*Targeted*	(4) & (3)	*Projected*	*Targeted*	(7) & (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Calcutta	2,546.67	3,060.00	513.33	4,822.00	5,664 00	842.00
2. Howrah	230.06	343.67	113.61	775.04	775 04	—
3. South Suburban	75.89	78.44	2.55	111.47	114.06	2.50
4. Bhatpara	40.67	36.65	(—) 4.02	89.10	89.10	—
5. Jadavpur	28.09	25.58	(—) 2.51	47.90	47 90	—
6. Kamarhati	50.30	34.40	(—) 15.90	77.82	77.82	—
7. South Dum Dum	36.69	32.61	(—) 4.08	65.88	65.88	—
8. Panihati	26.49	26.40	(—) 0.09	40.88	58.30	17.42
9. Garden Reach	32.55	26.46	(—) 6.09	80.66	80.66	—
10. Baranagar	44.13	29.38	(—) 14.75	77·24	77.24	—
11. Bally	50.73	34.34	(—) 16 39	94.98	94.98	—
12. Hooghly-Chinsurah	29.44	22.33	(—) 7.11	51.64	51.64	—
13. Serampore	34.29	34.75	0.46	64.81	64 81	—
14. Naihati	34.13	26.56	(—) 7.57	66.79	66.79	—
15. Barrackpore	16.80	20.48	3.68	40.86	40.86	—
16. Titagarh	16.19	13.24	(—) 2.85	33.66	33.66	—
17. Chandernagar	35.74	23.24	(—) 12.50	105.97	105.97	—
18. North Barrackpore	14.01	9.71	(—) 4.30	30.19	30.19	—

19. North Dum Dum	16.68	21.97	5.29	34.11	34.11	—
20. Rishra	18.50	15.11	(—) 3.48	36.71	36.71	—
21. Halishahar	16.39	12.41	(—) 3.98	40.01	40.01	—
22. Kanchrapara	7.50	6.16	(—) 1.34	26.10	26.10	—
23. Uttarpara-Kotrung	16.01	19.79	3.78	29.02	34.20	5.18
24. Bansberia	17.47	17.80	0.33	31.57	31.57	—
25. Champdany	21.45	16.63	(—) 4.82	32.33	32.33	—
26. Baidyabati	11.48	9.50	(—) 1.98	28.60	28.60	—
27. Budge Budge	37.57	18.98	(—) 18.59	59.96	59.96	—
28. Garulia	11.02	6.40	(—) 4.62	21.06	21.06	—
29. Barasat	6.38	5.97	(—) 0.41	10.31	10.31	—
30. Bhadreswar	12.26	8.76	(—) 3.50	31.69	31.69	—
31. New Barrackpore	3.46	7.95	4.49	13.83	13.83	—
32. Rajpur	5.15	4.44	(—) 0.71	15.64	15.64	—
33. Dum Dum	18.04	17.41	(—) 0.63	31.38	31.38	—
34. Konnagar	11.90	14.36	(—) 2.46	29.01	27.01	(—) 12.00
35. Khardah	10.47	9.47	(—) 1.00	30.74	30.74	—
36. Baruipur	2.24	2.81	0.57	9.74	9.57	—
37. Kalyani NAA	16.14	20.36	4.22	36.81	36.81	—
38. Gayeshpur NAA	8.03	2.16	(—) 5.87	25.50	25.50	—

SOURCE: West Bengal, *op. cit.*, Appendix XV; World Bank, *op. cit.*, Table 5.

immediate future full-pricing of water supply is a remote possibility in view of the administrative constraints, public health-cum-safety requirements, the needs of the urban poor, and consumer resistance. A resolute action in this front would, however, keep the degree of subsidisation of water to a reasonable limit.

ENTERPRISE PROFITS

Among the remunerative municipal enterprises in the CMA there is a good prospect for starting shopping centres and specialised markets in the larger authorities. The smaller municipal authorities could undertake composting of manures; even in adjoining rural areas if there is a shortage of urban land for the purpose. Larger municipal authorities could provide bus and lorry terminals where heavy vehicular traffic terminates within their jurisdiction and impose user charges for the facilities provided. Municipal land development could be undertaken through sanitary land-fill of marginal land; also in the larger authorities peripheral land could be acquired for trading in serviced land. However, due to legal problems associated with land requisition, it might be preferable to go in for land readjustment methods whereby the original owners of land are returned a portion of the developed land after deducting parcels of the pooled land for outright selling and recovering of the cost of municipal infrastructure.

Although most of these ideas may have relevance in the near future, action on all these ideas must originate from the municipal authorities themselves. Availability of loan finance for many of these schemes may induce the municipal authorities to venture into remunerative projects not attempted before. The decision of the State Government to release one-half share of the state entertainment tax as development loan to be municipal authorities in the state could be acted upon to uncourage municipal commercial ventures.

CONCLUSIONS

In view of the uncertain prospects of municipal internal resource mobilisation in the near future, the full operation

of the RGS to trigger development assistance seems open to doubt. The MFC in its report suggested tax-sharing as the main instrument for meeting the municipal revenue gap; the CMDA, on the other hand, seems to rely on revenue grants for this purpose. This strategy, in order to be effective for meeting the MDP requirements, would depend on substantial increases in CMA municipal internal revenue mobilisation, particularly on the property tax collection front. Since such prospects are not too bright, there is no option but to revert back to the MFC scheme of increased tax-sharing to meet the municipal revenue gap on an assured basis and then to use grants for meeting abnormalities on the revenue front, like backward areas, new municipality, increased inflation compensation, specific-purpose functional grants etc. The biggest bottleneck would lie, as of now, on the administration front on both state and municipal levels. With improvements in the working of the DLB, CVB and the municipal authorities it is possible to achieve improvements in municipal financing of urban development in metropolitan Calcutta. This has to be the immediate agenda for action.

Appendix I

PHYSICAL DESIGN STANDARDS: MDP

Sector	*Minimum Design Standards*	*Maximum Design Standards*
(1)	(2)	(3)
Water Supply	(*a*) *Concentrated Population*: Deep tubewells with secondary distribution system; provision for urban poor. (*b*) *Dispersed population*: Spot tubewells	Secondary grid connected to primary grid, house connections.
Drainage	Unlined surface drains connected to trunks with proper outfalls.	Brick-lined or cement brick work surface drains with concrete slab covers at critical locations, connected to proper outfalls.
Service Privy Conversion	Sanitation disposal units to seat level of twinpit flush type.	Sanitary latrines with septic tank chamber and soak well with superstructure in masonry or connected to sewer system of required capacity.
Solid Waste Management	Handcart and intermediate vat collection, final disposal by tractor trailors.	Tractor-trailer and intermediate vat collection, final disposal by tractor trailers and mechanical dumpers;

(1)	(2)	(3)
		pilot composting plants.
Local Roads and Street Lighting	Brick-paved roads, street lights on steel posts with overhead wiring.	Black-topped metallic roads protected against erosion street lights on steel poles with overhead wiring.
Bustee Improvement	Provision of shallow tubewells, street lighting, open surface drainage, community sanitary latrines, brick-paved pathways.	Provision of water taps and standpipes, intermediate vats for solid waste collection, open surface drainage, community sanitary latrines, brick-paved pathways.
Markets	Tubular structures with asbestos roofing and brick-paved flooring, water supply, solid waste collection, lighting, open drainage, brick-paved circulation system.	Concrete structures with same services as minimum standard but also with provision of parking spaces.
Parks and Playgrounds	Wire fencing on timber posts, basic seating arragements.	Brick wall or metal foundary fence, basic seating, basic play facilities, illumination.
Cremation Grounds	Proper boundary wall repairs/reconstruction of steps and protective works.	Proper boundary wall and covered areas for mourners, protective works against erosion, repairs / reconstruction of steps.

Appendix II

SECTOR SERVICE DELIVERY NORMS: MDP

Sector Sub project Component	*Minimum Service Delivery Norms*	*Maximum Service Delivery Norms*
Water Supply	5 gpcd	25 gpcd
Drainage	Component specific: waterlogging per per cent of target population.	Component specific: waterlogging per 100 per cent of target population.
Service Privy Conversion	1 communal privy for 25 people.	1 communal privy for 10 people.
Solid Waste Management	Component specific: tons collected per target population.	Component specific: tons collected per 100 per cent target population.
Local Road Improvements	Target population within 20 minutes walk of nearest metallic road.	Target population within 5 minutes of nearest metallic road.
Bustee Improvement	Component specific: municipal service improvements per per cent of target population.	Municipal service improvements per 100 per cent target population.
Markets	Provision of 50 sq.ft. covered space per 1,000 people.	Provision of 600 sq.ft. covered space per 1,000 people.
Parks and Playgrounds	Basic improvements to existing facilities.	Provision of additional parks/playgrounds.
Cremation Grounds	Maintenance of current facilities.	Provision of hygienic facilities for disposal of dead bodies.

Appendix III

APPRAISAL FORMATS: MDP

(*a*) *Key municipal indicators of*:

(*i*) population growth and density
(*ii*) urban poverty
(*iii*) municipal revenue and expenditure performance
(*iv*) MDP components: investments, sectors, staffing, land acquisition requirements, implementation time table.

(*b*) *MDP Sector summary of*:

(*i*) investment costs
(*ii*) existing and target service delivery levels
(*iii*) physical design standards
(*iv*) target beneficiaries
(*v*) percentage urban poor (EWS) of target beneficiaries.

(*c*) *Key socio-economic impact summary*

(*i*) justification and programme benefits
(*ii*) economic benefit summary
(*iii*) distribution of benefits and poverty analysis.

(*d*) *Key implementation issues*

(*i*) institutional and staffing arrangements and requirements
(*ii*) implementation schedule and agency responsibilities
(*iii*) related investment issues
(*iv*) sector specific financial issues.

Key revenue and expenditure performance indicators

(*i*) annual revenue and expenditure performance targets to be achieved.

Financing Urban Local Governments for Urban Development: Basis of State Transfers

*D.D. Malhotra**

Generally it is believed that the role of municipal governments in India is primarily of maintenance in character. Historical legacy has frozen this image in the minds of policy-makers and development administrators and thus, they are often skipped over whenever serious issues of urban development strategy and processes are discussed. A proper perspective of urban development and management would require examining their role in two ways, *viz.*: (*a*) development role of municipal functions and services, and (*b*) institutional role of urban local governments.

The nature of municipal functions and services are such that their criticality increases with population concentration and economic activity within an urban area. In fact they can shape, provide a boost to or severely restrain the socio-economic productive forces which are responsible for urban development in an area. Analysis of effectiveness of any urban development strategy must examine the consequences of neglect of urban local governments which carry out these functions and render the services. For various reasons including the dominant urge to depoliticise urban development and management and apparent justifications for promotion of functional specialisation and economy of scale of services leading to the establishment of special agencies of state governments, which seem to be gradually denuding the municipal bodies of their function and resources or degrading the role of maintenance functions in the urban development process. We have not yet succeeded, on the other hand, in evolving a

*Faculty, IIPA, New Delhi.

viable and effective institution for this purpose. The functions, powers, resources and the accountability are scattered in such a way that effectiveness of each organisation established to undertake some aspects of urban development suffers from the lack of one or the other. What is not being properly recognised is that only urban local governments can provide their appropriate combination for maximum developmental impact at the local level. One of the important factors which has given the urban local government a very limited perspective of their role is the paucity of their financial resources. The scope of their taxation is hardly adequate to meet the rising cost of municipal services. State governments are reluctant to share their tax resources even if their taxes are local in character and rightfully belong to the local bodies. Increasingly the municipal governments are becoming dependent on transfers from state governments through a variety of grants. A few commissions and committees appointed to enquire into the state of municipal finances have recommended augmentation of their financial resources. Most of them, however, have examined their needs within the parameters of their existing obligations, *i.e.*, functions and services and not the requirement of an institution for urban development. An attempt in this paper has been made to highlight their recommendations in regard to main basis of transfers such as shared taxes and grants from state to local governments in this regard. Though the strategy of augmenting through transfers the resources of urban local bodies providing essential services which constitute a vital and basic infrastructure for urban development is not an ideal for their healthy growth, yet some states have shown how the harmful effects of this strategy can be minimised by evolving a sound system of administration of these transfers. In fact, they have been used to secure improvement in the performance of municipal governments without using the coercive and other unpleasant mechanisms of state control and supervision.

I. TAX-SHARING AND ASSIGNMENT

The most lucrative taxes which are either shared between the state and local governments or their proceeds are assigned

to municipal bodies are motor vehicle tax and entertainment tax.

Motor Vehicle Tax

Transportation is crucial to urban development and construction, improvement and the maintenance of roads in municipal areas is vital to the efficiency of urban transport system. The responsibility for this rests with the municipal bodies. With increase in the use of automobiles and higher costs of construction, improvement and maintenance of roads, the urban local bodies have to discharge this responsibility by drawing heavily on their resources.

Under the Government of India Act, 1919, the levy of tolls and tax on vehicle were exclusively reserved for local bodies. However, after Government of India Act, 1935 wherein the local governments lost their constitutional identity, the state governments started taking over. Local governments were given compensatory grants worked out on the basis of the average collection of three years preceding the take-over. In the present day context, the compensatory grant will be a drop in the ocean.

The Local Finance Enquiry Committee (1951) recommended the sharing of the net proceeds of the tax with local bodies. The Taxation Enquiry Commission (1953) specified the quantum of 25 per cent of the proceeds from this tax to be given to local bodies. The Zakaria Committee (1963) while observing that municipal bodies are forced to maintain roads increasingly used by automobile users living in urban areas, recommended that a formula should be evolved to distribute the proceeds amongst local bodies on the basis of population, volume of traffic, etc. The Rural-Urban-Relationship Committee (1966) perscribed a limit of 25 per cent of the receipts to go to the local bodies.

Despite these recommendations, a few of the state governments continue to give ridiculously low amounts fixed by way of compensation in lieu of loss of receipts from the tax after take over by them. While observing that "there is no correlation between the compensation paid and the amount which municipalities are called upon to spend for the maintenance and development of roads", Mysore Taxation and Resource

Enquiry Committee (1969) instead of recommending reforms in tax sharing, opted in favour of abolition or its devolution. Its contention was that "the maintenance of roads should be part of a system of general purpose grant".

In Gujarat, the Grants-in-Aid Code Committee for Municipalities and Municipal Corporations (1972) retained its compensatory character but recommended that in view of the comprehensive nature of grants-in-aid system, it should eventually be commuted and discontinued.

In Orissa, the State Municipal Finance Commission (1975) found that an extremely inadequate fixed amount of Rs. 15 lakhs is set apart from receipts of MVT for distribution among to urban local bodies on the basis of mileage of different types of roads. The Commission recommended that at least 20 per cent of MVT be made available to urban local bodies...for maintenance and improvement of roads with at least 20' width and 10' carriage way to prevent distribution of the amount in relatively unimportant lanes, bye-lanes and ridewalks.

Maharashtra Municipal Finance Commission (1974) observed that even though road length maintenance on 31st March 1972 by urban local bodies is 10.5 per cent of that maintained by state government and zila parishads, these roads are under heavy traffic and are intensively used by motor vehicles. Municipal bodies have to incur annually sizeable expenditure on their construction and maintenance. The Commission recommended earmarking of 25 per cent of net collection in the state from MVT for disbursement to municipal councils in the following manner:

(*i*) a separate Account within the State Road Fund (established in 1935 and subsequently under Bombay Motor Vehcile Tax Act, 1958 solely for construction, improvement and maintenance of roads including those vesting in any local authority out of the proceeds of MVT) should be opened and 25 per cent of the collections should be credited each year to this Account.

(*ii*) 60 per cent of the amount set aside should be distributed as normal road grants to municipal councils and corporations which are not permitted to levy motor

vehicle tax at a flat rate of Rs. 2.50 per person of their population. Municipalities at hill stations should be given at the rate of Rs. 4.00 per person.

(*iii*) The remaining 40 per cent of the amount should be distributed every year as special road grants to muncipal councils and all the corporations. Three corporations of Bombay, Poona and Sholapur who are not eligible for the normal road grants should be assisted more favourably from Special Road Funds to meet their specific needs such as flyovers, subways and parking places.

It may be mentioned that in Maharashtra, grants-in-aid for maintenance and repairs of roads are given to municipal councils and corporations at the rate not exceeding Rs. 450 per mile but actual payment of the grant is restricted to 50 per cent of the expenditure.

The Kerala Motor Vehicles Taxation Act, 1963 lays down that "From the proceeds of the tax collected every year, there shall be paid to each local authority such compensation as may be fixed by government with due regard to the length of the roads maintained by such authorities and the volume of motor traffic making use of such roads. The annual compensation payable shall be fixed in advance for periods of 5 years on the recommendation of a committee to be appointed by government from time to time." Principles of sharing and comprehensive formula were evolved by the committees appointed by the government in 1964 and 1967. "The share of vehicle tax payable to each local body every year was worked out on the basis of the units of road length maintained by each. The roads were classified into 4 types: (1) concrete, (2) black topped, (3) metalled, and (4) lowest type. Single lane width of road was taken as 12′." A length of one km. of lowest type of road with single lane width was taken as one unit and the other different types of roads of varying width were reduced to this common unit correlating it to the cost of maintenance of the respective type. The relative position of the different types of road of 1 km. length of a single

lane width in the scale of road units was as follows:

	Cost of maintenance Rs.	*Road unit*
Lowest type	450	1
Concrete road	500	1
Metalled road	3,525	8
Black topped road	5,120	11

"All roads maintained by the PWD, all concrete and black topped roads and 25 per cent of the roads maintained by the corporations and municipalities and all concrete roads maintained by the panchayats were taken as having double lane width. The remaining roads were taken as having only single lane width. Twenty per cent weightage was given to roads maintained by corporations and municipalities due to the higher intensity of motor traffic. Similarly only 20 per cent of the length of metalled roads maintained by panchayats was reckoned for computing road units as the intensity of traffic on such roads was assessed as only 1/5th of the traffic on roads maintained by PWD. The compensation for 5 years was paid on the basis of the percentage of road units of each agency to the total road units. The net tax collected under the Act each year after deducting the amount spent for administration was distributed between the government and the local bodies.'

$$\text{Compensation for one road unit} = \frac{\text{Total Collection—administrative cost}}{\text{Total units of roads maintained by all agencies.}}$$

The Kerala Municipal Finance Commission (1976) while endorsing the continuation of the principle and apportionment formula recommended that amount of compensation payable each year should be determined on the basis of the revenue collected each year (instead of once in five years). Further, the principles and the formula should be arrived at on the basis of survey and traffic census conducted once in five years so as to determine the details of road length, proportion between single and double lane roads, weightage for

traffic intensity, etc.

Thus we find that in Kerala the sharing on MVT is statutorily recognised. In some states, the level of compensation has remained frozen while in some cases there are attempts to relate it to the current receipts all over the state and its distribution is assuming more of equalisation rather than compensatory nature.

Entertainment Tax

Like motor vehicle tax, the entertainment tax demonstrates considerable buoyancy with the increase in urbanisation and changes in life styles of people. State governments were empowered under Government of India Acts of 1919 and 1935 and these powers continue under the Constitution of India. However, recognising the local character of this tax, the Taxation Enquiry Committee (1953) recommended that a share of the tax should be assigned to the local bodies. The Zakaria Committee (1963) was also in favour of it being assigned completely to urban local bodies, with a beginning of 24 per cent being earmarked for this purpose. The RURC (1966) also recommended the giving of its proceeds, after deducting collection charges, to local bodies by the state governments. Initially, the reason for the levy of this tax by state governments was to find resources for spreading primary education.

The situations today vary from levy, collection and retention of this tax by state governments to its complete devolution on the municipal bodies. In states where entertainment tax is levied and collected by the urban local bodies (such as in Kerala) or assigned to them (as in the case of Tamil Nadu, AP and Karnataka), it contributes next to property tax, largest revenue for municipal bodies.

In Kerala, the tax is levied and collected under Local Authorities Entertainment Tax Act by municipal bodies. In Karnataka, 90 per cent of the proceeds of the tax is assigned to local bodies from whose jurisdiction the tax is collected by the state government. The balance of 10 per cent is retained as service charges. Wherever, the state government levys and collects the tax and assigns its proceeds to local bodies, the primary intention appears to be to secure uniformity in rates.

and administration. Mysore Taxation and Resource Enquiry Committee 1969 observed that "the transfer of entertainment tax and show tax to local bodies alongwith the surcharge will be, a salutary measure in the direction of fiscal independence". It recommended empowering of local bodies in similar way as in Kerala. In Orissa, while observing that 50 per cent of the net proceeds of entertainment tax realised in area of the individual urban local bodies are being given as outright grants, deducting collection charges, the Municipal Finance Commission recommended the distribution of the net proceeds, keeping in view the needs of smaller local bodies, as under:

Urban Local Bodies	*Per cent*
Class I and Class II	50
Class III	60
Class IV	75

While rejecting the recommendation of the Estimate Committee (1965-66) in the Sixteenth Report that the local bodies should get a share in this tax, the State Government in Maharashtra contended that:

(*i*) Entertainment tax is one of the elastic sources of revenue and that under the present circumstances government cannot afford to decentralise the tax resources in favour of local bodies.

(*ii*) Nearly 75 per cent of the revenue from entertainment tax is derived from the areas within Municipal Corporations and when the share of entertainment tax is given to the local bodies, the rider bodies and also the Municipal Councils serving more prosperous towns and cities would benefit at the expense of the smaller and needier Municipal Councils.

(*iii*) The local bodies are not exploiting their resources fully and arrears of due are not properly recovered by them. Giving them a portion of the tax collected by government through its own agency would amount to putting a premium on the local bodies inefficiency.

(*iv*) The state government has already taken over a sub-

stantial portion of the financial liability on education which ordinarily would have devolved on the local authorities.

The Municipal Finance Commission, Maharashtra State, (1974) however, contended, that:

(*a*) Entertainment tax is local in character and urban local bodies provide the necessary infrastructure and the civic services to the places of entertainment. Consequently, the urban local bodies have a claim on a share from this tax.

(*b*) Government has been levying an education cess in the areas of urban local bodies which give considerable income. It is not known whether government has been utilising the proceeds of the entertainment solely on primary education.

(*c*) Both the state government and the urban local bodies are in need of resources for discharging their respective obligations.

Reacting to the objections raised at (*ii*), (*iii*), (*iv*) in the pregoing the Commission argued that: (*a*) a formula can be devised so that the assistance is given to urban local bodies in inverse proportion to their financial position, (*b*) a share from entertainment tax may be given to such urban local bodies who exploit their own resources of taxation to the satisfaction of state government. The Commission, therefore, recommended that the allocations to the urban local bodies share should be:

Municipal Corporations	10 per cent
Municipal Councils—'A' Class	30 per cent
Municipal Councils—'B' Class	35 per cent
Municipal Councils—'C' Class	40 per cent

Further, the Commission observed that the state government may consider it more equitable to pool the receipts from the local bodies in each of the four categories and the prescribed percentage share of the receipts may be distributed

among the urban local bodies *inter se* in each category in proportion to their respective populations.

II. GRANTS-IN-AID

Apart from sharing and assignment of some taxes, most important of which have been discussed above, major transfers from State to urban local bodies take place under various types of grants. However, statutory recognition to the position of grants in municipal finance is contained in only 2 states. Section 136 of the Kerala Municipalities Act provides that "Government may contribute by way of grants to the funds of any municipality such sums as may be fixed by Government with due regard to the needs of development and the cost of municipal administration and services". The Gujarat Municipalities Act under Sec. 144 provides for appointment of a committee every five years to make recommendations regarding the revision of grants to municipalities. Both these states have evolved system of grants-in-aid through rules or code in order to provide stable, certain and secure sources of finance for municipal services. Broadly, the grants-in-aid have the following three categories:

(*i*) *General purpose grants*: These grants which are primarily intended to substantially bridge the gap between the needs and resources of the local bodies.

(*ii*) *Specific purpose grants*: Those grants which are tied to the provision of certain services or performance of certain tasks. Such services rendered by municipal bodies, may fall under the obligation of the state government also or they are of national in character.

(*iii*) *Statutory and compensatory grants*: These grants which are given under various enactments are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local Government.

Madhya Pradesh, Kerala and Gujarat have adopted through rules or code a round system of grants-in-aid to urban local bodies. In MP, two sets of rules were adopted for regulating

grants-in-aid for general purposes (1962) and for specific purposes (1961). In Kerala, rationalisation of the system of grants-in-aid was carried out by Municipal Grants Enquiry Committee in 1963 and its recommendations led to the adoption of: (*i*) The Kerala Municipal (General Purpose Grants-in-Aid) Rules 1966, and (*ii*) The Kerala Municipal (Payment of specific Purpose Grant) Rules 1967. In Gujarat, the State Government appointed in 1962 Grants-in-Aid Code Committee (Chairman: Shri Maldevji Odedra) to evolve a coherent policy in regard to grants-in-aid to municipal authorities. The recommendations of the Committee led to the formulation of a unified Grants-in-Aid Code in 1965, which is periodically revised by the Grants-in-Aid Code Committee appointed under the Municipalities Act every five years. The need for formulation of rules or code has been stressed from time to time to develop a sound system of administering grants-in-aid. In their absence, wide divergence in grants-in-aid practices exist and it is difficult to assess the impact on municipal finance of wide variety of grants. A brief description of the system of grants-in-aid adopted by MP, Kerala, Gujarat is given to highlight the nature and scope of their impact.

Madhya Pradesh

(*A*) *General purpose grant*: It is defined in the rules as 'government assistance intended to provide the local authority after taking into account its resources and the possibility of augmenting them, a fairly adequate finance for discharging, the obligatory and executive functions. The only condition laid down in the rules for its eligibility is that municipal council should have imposed taxes prescribed by the municipal laws and taken all necessary steps for their realisation. The scale of grant is fixed as follows:

(*i*) Municipal Corporation	Rs. 0.50 per head of population.
(*ii*) Municipalities having population above 50,000	Rs. 0.75 per head

(*iii*) Municipalities having population between 2,000-50,000	Re. 1.00 per head
(*iv*) Municipalities having population between 10,000-20,000	Rs. 1.25 ,,
(*v*) Municipalities having population below 10,000	Rs. 1.50 ,,

(*B*) *Specific purpose grants*: The grants for specific purposes are confined to the following purposes:

		Per cent
(*i*) Water supply schemes and/or drainage schemes	For All Municipal Bodies	30
(*ii*) Houses for municipal staff, office buildings, etc.	1. Corporation	30
	2. Class I and II	35
	3. Class III and IV Municipalities	40
(*iii*) Public works, roads, drains, pavings, foot path, latrines, urinals, etc.	1. Municipalities I, II	30
	2. Municipalities III, IV	40
(*iv*) Equipment for Sanitary public works, fire fighting or other municipal services	1. Municipalities I	30
	2. Municipalities II	35
	3. Municipalities III, IV	40

Main conditions for availing these grants are:

(*i*) the local body will have to make adequate provision for meeting the rest of the cost of the scheme.
(*ii*) the entire amount of the grant shall be utilised within one year.

Kerala

General purpose grant: The same model as prevalent in MP was adopted by the Municipal Grants Enquiry Committee

in 1964, but with following modifications:

(*i*) Classification of municipalities into 'A' and 'B':

'A' Corporation and major municipalities	—Re. 1.00 per capita
'B' Minor Municipalities	—Rs. 1.50 per capita

(*ii*) Eighty per cent of the grant is payable without any condition while 20 per cent is subject to the satisfactory performance with regard to raising of resources by the local body: The resource raising effort of a local body is considered satisfactory, if the local body has a per capita annual income of Rs. 15 in case of major municipalities and corporation and Rs. 10 in the case of minor municipalities. Even if they fall short of this target, but succeed in increasing at least by 7½ per cent its income over the previous year, it would be considered satisfactory.

Municipal Finance Commission (1964) recommended, after a review, the revised rates as under:

	Per capita
1. Corporation and Grade I Municipalities	Rs. 2.00
2. Grade II Municipalities	Rs. 2.50
3. Grade III Municipalities	Rs. 3.00

But it also laid down more rigid conditions of eligibility such as:

(*i*) 50 per cent of general purpose grant to be without any condition.

(*ii*) 50 per cent on satisfying the following conditions:

(*a*) Rate of property tax does not fall below:

18 per cent—Municipal Corporations
16 ,, —Grade I and II Municipalities
14 ,, —Grade III Municipalities

(*b*) The revenue of the local bodies excluding grants,

contributions, loans, debts should register annual increase of:

14 per cent—Municipal Corporations and Grade I and II Municipalities.
13 per cent—Grade III Municipalities.

(*c*) Not less than 20 per cent of the revenue including grants and contributions but excluding loans and debt head items should have been transferred to the Capital budget in the previous year.

(*d*) The statutory minimum of 30 per cent of income as per provisions of the Public Health Act should have been spent on public health.

(*e*) Collection of revenue should not have fallen below 95 per cent of the demand during the previous year. Where it is below 95 per cent, there should have been at least 10 per cent rise in collection in the previous year.

(*f*) The budget should have been passed, the annual accounts and administration reports submitted and first replies to audit reports furnished within the prescribed time.

Grants for specific purposes: A wide range of services were recommended by Municipal Grants Enquiry Committee, (1964) for eligibility to financial assistance. The government accepted these: (*a*) maintenance of isolation hospitals, maternity and child welfare centres, family planning centres and anti-mosquito operations, (*b*) Maintenance of poor houses, begger houses, free public ferry services, (*c*) Town Planning and town survey operations, (*d*) maintenance of fire fighting services, and (*e*) all constructions and equipments provided for their furtherance. The rate at which specific purpose grants is given:

	Expenditure
(*i*) Municipal Corporation and Major Municipalities	50 per cent
(*ii*) Minor Municipalities	$66\frac{2}{3}$,,

Expenditure includes the entire cost of establishment and contingencies incurred exclusively in connection with that service. No conditions are attached to the disbursement of specific purpose grant apart from maintenance of separate accounts. The Municipal Finance Commission (1976) recommended the deletion of fire fighting services and town planning from the list.

Apart from the above, the state government gives for water supply and sewerage scheme a grant upto 50 per cent of expenditure.

Gujarat

The Grant-in-Aid Code Committee (1962-64) which codified grants for the first time after amalgamation of a wide variety of grants to local bodies laid down the following structure:

1. General purpose grants which include: (*i*) a basic per capita general purpose grant, (*ii*) grant-in-aid based on certain percentage from non-agricultural assessment, (*iii*) grants-in-aid on certain percentage from land revenue, and (*iv*) grants-in-aid based on certain percentage from Education Cess.
2. Specific purpose grants which include: (*i*) water supply and drainage, (*ii*) appointment of health officers and Sanitary Inspectors, (*iii*) dispensaries and hospitals, (*iv*) maternity homes and hospitals, (*v*) maternity and child welfare centres, (*vi*) epidemic control, (*vii*) building equipment for hospital and dispensaries, (*viii*) vaccination, mosquito control, leprosy control, (*ix*) triple vaccine, (*x*) Wheel borrows, (*xi*) primary education, (*xii*) Harijan housing, (*xiii*) construction and improvement of roads, and (*xiv*) cleaning allowance.
3. Statutory or compensatory grants which included: (*i*) Grants under Bombay Motor Vehicle Taxation Act, (*ii*) Grants-in-aid under Public Conveyance Act, 1920, (*iii*) Grants-in-aid for administration of the Bombay shops and Establishment Act, 1948, and (*iv*) grants-in-aid from fines realised in cases under municipal and other Acts tried by Magistrates.

The Grants-in-Aid Code Committee for Municipalities and Municipal Corporations (1972) however modified this structures of grants-in-aid, apart from recommending sharing by State Government of entertainment duty and education cess with local bodies. In addition, it recommended empowering of local bodies to impose tax of professions, trades, etc., stamp duty, tax on advertisement (other than newspaper) and surcharge on entertainment duty. The new structure recommended was:

1. General Purpose Grants:

   (*i*) Basic per capita general purpose grant,
   (*ii*) grans-in-aid from entertainment duty, and
   (*iii*) incentive grant.

2. Specific purpose grant:

   (*i*) Grants-in-aid for implementation of development plans.
   (*ii*) Grants-in-aid for water supply and drainage.
   (*iii*) Grants-in-aid from education cess.
   (*iv*) Grants-in-aid for primary education, secondary education.
   (*v*) Grants-in-aid towards expenditure on clearance allowance.
   (*vi*) for maintenance of dispensaries and hospitals.
   (*vii*) to purchase of wheel borrows and hand carts.
   (*viii*) construction of quarters for conservancy staff.
   (*ix*) for conversion of dry latrines into water borne ones.

3. Statutory or compensatory grants: same as recommended initially in 1964.

Basic per capita general purpose grant recommended was for:

		Per capita/year
(*a*)	A class municipalities	30 paise
(*b*)	B ,, ,,	40 paise
(*c*)	C ,, ,,	60 paise

The collector to be sanctioning and disbursing authority. No conditions were attached.

For grant-in-aid from entertainment duty it was recommended that 15 per cent in case of class 'A' municipalities, 20 per cent in case of class 'B' and 30 per cent in case of class 'C' municipalities of net receipts of the duty released from within their respective area should be paid to them.

Incentive grant calculated at 25 per cent of all government grants actually paid to a municipality during the last preceding year should be paid to it if it attains the following standards of performance.

Item	*Standards*		*Marks*
	Class	*Min. per head (Rs.)*	
1. Income from taxation	A	45	25
	B	40	
	C	35	
2. Income from all sources excluding loans deposits but including donation.	A	60	25
	B	55	
	C	50	
3. Expenditure on establishment (non-self supporting)	Not more than 25 per cent of municipality's own income		25
4. Recovery of municipal dues excluding octroi	Minimum of 95 per cent		15
5. Expenditure on medical relief and public health activities	Munimum of 10 per cent of Municipality's income		10
	TOTAL		100

The incentive grant to be given in accordance to the percentage of marks obtained. In the case of specific purpose grants, the Committee recommended giving of grants varying in percentage of cost and in accordance with the status of

municipality as given in the following table:

	Class of Municipality A	B	C
1. Implementation of development Plans (cost of works and land acquisition)	33⅓	50	50
2. Water Supply Schemes	20	30	35
3. Drainage	35	45	55
4. Grants-in-aid from education cess (only to the authorised municipalities)	equivalent to entire proceeds of tax on land and buildings collected in the municipal area.		
5. Primary Education (of admissible expenditure on primary education falls short of assessed annual demand of Education cess)	75	90	90
6. Dearance Allowance	50 per cent of the expenditure on D.A related to percentage of property tax levied.		
7. Secondary Education	50 per cent of the approved expenditure.		

CONCLUSIONS

The basis of transfers through shared and assigned taxes and grants-in-aid constitutes an important element of financing municipal governments for urban development. The trend, however, appears to be to discourage the resort to shared and assigned taxes and rely more on grants-in-aid. A comprehensive and coherent system of grants-in-aid could take care of shared and assigned taxes as has been attempted in Gujarat. In some states, like Maharashtra, specific purpose grants have been preferred over the general purpose grants recommended in the state of MP, Kerala and Gajarat (in addition to specific purpose grant). It is considered that general purpose grants can be conveniently linked to the performance of municipal governments in such a way that they secure greater mobilisa-

tion of their own tax resources. On the other hand, specific purpose grants can direct the priorities of urban local bodies in favour of areas which the state government thinks, require greater attention. It appears that such specific purpose grants are more readily linked with the provision of certain social services in the field of education and health, etc. The same mechanism can, however, be effectively used to wider the scope of municipal government in the field of urban development and management, if specific purpose grants are increasingly made available on regular, predictable and stable basis for undertaking developmental functions.

Apart from these kinds of transfers, plan schemes of the central and state governments do have some component of grants. But such transfers in the long run are not helpful to wider the developmental capability of the urban local bodies. In a number of local bodies, transfers under plan schemes sometimes severely erode the capacity of the local bodies even for maintenance functions.

*Financing of Urban Public Services in India: Property Tax Vs. User Charge**

Shyam Nath†

INTRODUCTION

State and local governments are responsible for the provision of urban public services. While the responsibility of state governments is limited to that of development of necessary infrastructure, local governments are entrusted with the task of maintaining it. Separation of development and maintenance roles of urban public services has resulted in the determination of plans for urban development without taking into account fund requirements of maintenance. This has resulted in a maintenance gap for urban public services which is reflected in their sluggish growth and sometimes in the decline of these services.

A comparison of the growth of per capita revenue expenditure in nominal and real terms would reveal that the nominal per capita revenue expenditure has increased mainly due to price rise (Table 1). Thus the demand induced increase in the supply of municipal services has been found to be insignificant. In fact, in some of the municipal jurisdictions, the local expenditures in real terms have gone down. These results would establish that the growing demand for municipal services consequent upon population, income and employment growth in the cities has exerted very little influence, if

*The present paper reflects the views of the author and not necessarily of the organisation which he serves.

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†Fellow, NIPFP, New Delhi,

TABLE 1 PER CAPITA REVENUE EXPENDITURE OF MAJOR MUNICIPAL CORPORATIONS

(*Rupees*)

Corporation	1965-66		1970-71		1975-76		1977-78	
	Current Prices	*Constant Prices**	*Current Prices*	*Constant Prices**	*Current Prices*	*Constant Prices**	*Current Prices*	*Constant Prices**
Delhi	38.01	29.46	71.65	41.42	87.55	32.07	97.72	34.17
Calcutta	—	—	46.95	27.78	62.19	25·49	75.59†	28.85
Bombay	63.00	48.46	89.64	53.68	165.26	67.18	193.43	72.72
Madras	42.09	32.13	49.63	28.86	58.05	18.73	58.32	19.00
Ahmedabad	56.70	43.95	66.76	39.04	116.71	42.13	146.60	51.62
Bangalore	25.68	16.76	48.37	28.45	68.75	24.12	181.28	59.63
Average of above Six Corporations	45.98	—	62.17	—	93.09	—	125.49	—
Small Corporations	22.60	—	36.42	—	55.28	—	66.87	—

*Per capita revenue expenditure deflated by CPIN urban non-manual employees.

†1978-79

SOURCE: NIPFP, 1984, p. 11.

ORIGINAL SOURCE: CSO, *Annual Statistical Abstracts*.

any, on the supply. These facts may also be interpreted to mean that the quality of municipal services has gone down over time.

INSTRUMENT OF PROPERTY TAX

The inadequate growth of municipal services calls for a considerable increase in urban spending. The local property tax which is levied on the rateable value of property is the most important tax handle with the urban local authorities because the benefits due to the existence and operation of the local bodies get reflected in the values of properties located in the municipal jurisdiction, and many of the municipal services are property-based. In practice also, the local property tax is the principle source of revenue in most cases, and next to the octroi in a few cases (Tables 2 and 3).

One of the notable features of the tax has been that in spite of very high dependence of the local bodies at least some of them on this source, it has suffered a decline over time. The decline in the share of the property tax in the total tax revenue may not be a matter of concern, but what is important is that the property tax has not grown at a rate sufficient to meet the local government expenditure requirements or, at least, has not grown commensurately with urban income and property values[1]. The inelasticity of property taxes with respect to these indicators can be largely ascribed to imperfections in the real estate and rental markets, absence of an appropriate assessment code and legal impediment in the form of state rent control acts. The NIPFP studies have indicated that a solution to the first two problems contributing to the inelasticity of the property tax can be attempted through the adoption of some form of standardisation of property values with a provision for inflation adjustment. However, it has been found to be extremely difficult to mitigate the adverse effects of State rent control on the property tax revenue growth particularly in the context of the Supreme

[1]National Institute of Public Finance and Policy (NIPFP), *Property Tax Reform in West Bengal*, 1982, pp. 33-51, and *Property Tax System in Delhi*, 1984, pp. 51-67.

TABLE 2 PERCENTAGE SHARE OF EACH TAX IN TOTAL TAX REVENUE (1960-61)

(*Per cent*)

Corporation	*Property Tax*	*Service*	*Octroi*	*Terminal*	*Trades and Callings*	*Animals and Vehicles*	*Toll*	*Miscel-laneous*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Hyderabad	45.00	—	23.00	—	1.99	7.32	0.40	2.29
2. Patna	—	91.54	—	—	5.38	—	—	3.07
3. Ahmedabad	39.28	19.70	36.92	—	—	3.28	—	0.82
4. Bangalore	31.55	—	31.79	—	0.89	13.94	0.49	21.33
5. Calicut	43.09	46.87	—	—	8.23	1.81	—	—
6. Trivandrum	62.93	—	—	—	18.86	0.08	0.03	20.05
7. Gwalior	13.64	—	72.73	4.54	4.54	4.54	—	—
8. Indore	15.51	0.16	76.62	—	—	0.76	—	6.95
9. Jabalpur	—	13.29	72.83	—	—	1.96	0.17	11.74
10. Ujjain	16.28	—	65.87	6.56	0 94	1.99	—	8 37
11. Bombay	43.72	38.31	8.08	—	5.05	4.23	—	0.60
12. Nagpur	10.75	13.35	54.84	—	—	1.53	—	1.52
13. Poona	27.95	12.44	55.47	—	—	—	2.63	1.50
14. Sholapur	18.66	35.28	43.83	—	—	0.40	0.53	1.29
15. Madras	60.31	—	—	—	6.17	0.61	1.20	31.70
16. Agra	14.14	25.06	1.72	23.42	—	1.72	32.84	1.09

17. Allahabad	18.05	24.05	46.67	4.15	0.59	5.54	0.95	—
18. Kanpur	28.32	—	1.29	24.78	—	—	23.52	22.09
19. Lucknow	23.81	—	1.10	46.73	0.17	4.51	—	23.68
20. Varanasi	31.11	—	61.95	—	—	1.51	0.38	5.05
21. Calcutta	90.78	—	—	—	7.94	1.13	—	0.15
22. Chandernagore	33.11	45.78	—	—	5.33	2.22	13 56	—
23. Delhi	38.03	1.33	—	35.17	—	8.02	—	17.44
TOTAL	44.36	19.53	15.88	4.71	3.52	3.69	1.31	7.00

SOURCE: Planning Commission, *Task Force Report on Housing and Urban Development*, Vol. II, Financing of Urban Development, December 1983, p. 64.

ORIGINAL SOURCE: Government of India, CSO, *Statistical Abstracts*, 1979.

TABLE 3 PERCENTAGE SHARE OF EACH TAX IN TOTAL TAX REVENUE (1978-79)

(Per cent)

Corporation	*Property Tax*	*Service*	*Octroi*	*Terminal*	*Trades and Callings*	*Animals and Vehicles*	*Toll*	*Miscel-laneous*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Hyderabad[1]	49.85	—	5.09	—	1.18	0.07	—	43.81
2. Patna	—	78.93	—	—	3.00	12 69	—	5.38
3. Ahmedabad	26.38	6.12	68.46	—	—	1.75	—	0.28
4. Baroda	24.21	13.96	60.40	—	0.29	0.63	—	0.52
5. Surat	20.12	11.71	66.66	—	—	0.63	0.02	0.86
6. Shimla	21.63	—	71.17	—	—	0.04	—	7.16
7. Bangalore	21.65	0.04	54.95	—	16.03	0.17	0.02	7.14
8. Dharwar	15.43	7.23	65.69	—	—	—	0.03	11.62
9. Calicut[2]	32.09	25.68	—	—	4.85	0.14	—	37.24
10. Trivandrum	47.87	—	—	—	4.32	0 19	—	47.62
11. Bhopal	74.89	2.29	—	20.48	—	—	—	2.34
12. Gwalior	7.39	—	86.24	3.72	1.05	0.21	0.02	1.37
13. Indore	24.79	—	—	12.18	—	0.84	—	62.19
14. Jabalpur	13.81	61.86	—	10.76	—	0.73	—	12.84
15. Raipur[1]	10.00	5.66	67.30	3.59	—	0.40	—	13.04
16. Ujjain	31.64	—	—	45.62	—	0.53	—	22.21

17. Bombay	24,74	35.86	37.76	—	—	1.41	—	0.23
18. Nagpur	11.04	23.23	64.71	--	—	0.09	—	0.92
19. Poona	21.39	7.38	66.65	—	—	0.90	—	3.99
20. Sholapur	14.73	15.68	68.56	—	—	0.17	0.09	0.77
21. Madras		Break-up not available						
22. Agra	18.33	—	63.74	—	—	1.72	—	16.21
23. Allahabad	28.97	—	62.08	4.14	0.09	1.35	1.03	2.33
24. Kanpur	30.85	—	—	66.77	—	2.04	—	0.34
25. Lucknow	25.76	—	61.21	—	0.03	2.49	—	10.51
26. Varanasi	13.77	—	76.61	—	—	4.66	1.57	3.39
27. Calcutta[2]	81.06	6.11	—	—	12 06	0,31	—	0.46
28. Chandernagore	16.17	28.50	21.63	—	3.71	0.39	2.40	27.19
29. Delhi	38.39	0.57	—	29.89	—	0.06	—	31.08
TOTAL	28.40	19.08	37.66	5.45	1.45	1.03	0.02	6.90

SOURCE: Planning Commission, *Task Force Report on Housing and Urban Development*, Vol. II, Financing of Urban Development, December 1983, p. 65.

ORIGINAL SOURCE: Government of India, CSO, *Statistical Abstracts*, 1979.

NOTE: [1]For the year 1977-78.
[2]For the year 1976-77.

Court judgments of 1979 and 1984[2].

As the rent control law defines the house value to be equivalent to the value of investment comprising construction cost and land value at the time of commencement of construction, similar structures coming up at different points of time would be valued differently. Since the rent control laws do not allow the revaluation of properties, two important results follow. First, the house value cannot be revised upwards and, second, the construction cost and land price differentials would grow over time as between old and newly constructed properties and the different reteable values for similar structures would be perpetuated. These results would constrain the growth of rateable value significantly and in turn property tax revenue growth. Property tax, the mainstay of local government finances would have to be, therefore, revitalised within the contours provided by the Supreme Court judgment. The objective of the present paper is to develop a framework in which the different roles of property tax are analysed and a case for user charges for financing urban services is built.

PROPERTY TAX Vs. USER CHARGE

One should ask a basic question as to why a property tax is required to be levied. Property tax has been levied to finance urban development in general and provision of municipal services in particular. It consists of general tax and service charges accordingly. The general property tax is supposed to be collected from property owners of a local jurisdiction for local public services such as administration, traffic control, street lighting and security which are goods to the general public. Because of considerable externalities involved, it is difficult to identify individual beneficiaries who could be asked to pay for these services. Service charges on the other hand, are supposed to cover the costs of those urban services whose benefits can be imputed to individual

[2]For an empirical estimation of the adverse impact of rent control on the property tax revenue growth, see Shyam Nath, "Impact of Rent Control on Property Tax Base in India", *Economics and Political Weekly*, May 12, 1984. Also see Abhijit Datta, *Rent Control and Housing in Delhi*, Indian Institute of Public Administration, New Delhi, 1968.

beneficiaries, if not precisely, at least closely. These are basically public utilities such as water supply, sanitation, sewerage, housing, telephone and power. The determination of the beneficiary's share in the total cost of these services also may be constrained by the existence of local externalities. But it may be possible to identify individual beneficiaries who can be charged according to the facilities consumed.

The available information on property tax proper and service charge does not show exactly the extent of these roles being played by the property tax. The two components have not been reported properly in the sense that in many cases service charges have been clubbed with general property tax or whole of the property tax revenue has been reported as service charges (Tables 2 and 3). Given the information, however, one conclusion is quite evident—that service charges reported in the form of water and drainage taxes have not gained relatively over time. On the other hand, the information available from the Municipal Corporation of Delhi, New Delhi Municipal Committee and the Calcutta Municipal Corporation indicates that the four important municipal services, namely, water supply, fire protection, scavenging and sewerage and drainage, which would have attracted the attention of policy makers quite easily, have not been found to be self-financing (Tables 4 and 5).

This shows that the revenue from the general property tax and other local taxes has gone to finance these services partly. This can also be taken to mean that these services have been underpriced. Except in the case of metered water supply, payments for civic services are tied to the rateable value of property. Since the growth of rateable value has suffered a severe setback due to legal impediment, whereas the local government expenditutres on the provision of these services have increased rapidly, the service charge component of property tax has not grown commensurately. This further establishes that these services are highly subsidised at the cost of general taxpayers.

CASE FOR USER CHARGE

From the preceding analyses, it may be inferred that the

TABLE 4 RECEIPT AND EXPENDITURE FOR SELECTED CIVIC SERVICES IN LOCAL BODIES OF UNION TERRITORY OF DELHI

(*Rs. in lakhs*)

Local Bodies	*Water Supply*		*Fire Protection*		*Scavenging*		*Sewerage and Drainage*	
	Receipt	*Expenditure*	*Receipt*	*Expenditure*	*Receipt*	*Expenditure*	*Receipt*	*Expenditure*
Municipal Corporation Delhi:								
1970-71	298.65	338.87	0.24	33.76	3.15	236.70	0.01	52.13
1975-76	656.52	731.29	0.21	84.14	10.78	585.12	—	80.34
1979-80	698.53	1442.10	1.91	144.86	10.81	812.41	—	86.57
1981-82	1654.73	1888.31	2.27	218.57	2.00	1291.58	—	168.16
New Delhi Municipal Committee:								
1970-71	72.81	35.14	—	—	—	41.80	—	55.93
1975-76	78.73	142.75	—	—	—	82.61	—	59.69
1979-80	258.25	227.97	—	—	10.91	106.34	—	63.93
1981-82	252.25	306.67	—	—	8.31	148.02	—	174.04
Delhi Cantonment:								
1970-71	—	—	—	—	—	—	—	—
1975-76	0.53	1.47	—	1.46	10.71	17.95	—	0.97
1979-80	0.81	1.16	—	1.32	22.01	22.01	—	0.38
1981-82	0.90	1.89	—	1.66	25.50	28.71	—	17.98

—Not available.

SOURCE: NIPFP, 1984, p. 16.

ORIGINAL SOURCE: Offices of the Municipal Corporation of Delhi and New Delhi Municipal Committee.

TABLE 5 RECEIPT AND EXPENDITURE FOR SELECTED CIVIC SERVICES IN CALCUTTA

(*Rs. in lakhs*)

Year		*Water supply*	*Sewerage and drainage*
1977-78*	Receipt	347.50	69.50
	Expenditure	568.24	205.78
1978-79	Receipt	414.00	82.80
	Expenditure	627.51	247.29

*Revised estimates.
SOURCE: NIPFP, 1982, p. 325.
ORIGINAL SOURCE: Calcutta Corporation, Budget Documents.

receipts fall short of the local expenditures due to the following:

(*i*) Rateable value of property has ceased to be an appropriate index of benefits consumed;
(*ii*) Policy makers have been probably found to be more preoccupied with the idea of provision of these services at subsidised rates, at least to certain categories of population; and
(*iii*) Administrative inefficiency and wastage.

If correct economic prices are not charged, *i.e.*, if services are provided free or prices are set below the cost, one of the likely repercussions is that the elected councillors representing different lobbies would exert pressure on the municipal administrators to expand the level of expenditures on these services, resulting in further excess capacity.[3] Political pressures are found to be strongest in respect of expansion of precisely those services which are most underpriced and hence, by definition, socially worth least. This also encourages wastage in the use of facilities. Correct pricing thus ensures not

[3]For a detailed discussion of various implications of subsidisation of urban public services, see Bird, Richard M, and Slack, Enick, "Urban Finance and User Charges", in George F. Break (ed.), *State and Local Finance: The Pressures of the 80s.*, Wisconsin University Press, Madison, 1983, pp. 221-37.

only better decision on the use of existing public service but also provides better guidance for investment decisions on the part of policy makers.

There are, however, justifications for charging prices less than full economic costs where there are too many facilities already in place and the fixed costs attributable to these facilities are paid out of general government revenues. This is again not because this is fairer than charging the full cost of the services but because it is efficient to use facilities already built so long as the revenues produced exceed the current cost of doing so. Similarly, one possible justification for low service charges is to ensure that facilities already in place are used in an efficient fashion because full-cost recovery may not generate adequate demand for services.

In the context of India where municipal services are grossly inadequate and there is a continuously growing demand for different types of services, it may not be possible to justify underpricing on efficiency grounds. If, however, it is desirable to distribute these services to improve income distribution, there may be some scope for underpricing; the associated problem would be to determine the extent of subsidies to be allocated to different economic or social groups. One may take a position that the objective of improving income distribution should not be an overriding concern of local governments; this aspect is necessarily dealt with in a larger, macro-economic context. It may, however, be argued here that governments at different levels are expected to incorporate in their policies elements which contribute towards improved income distribution. If this viewpoint is taken to be valid, it is general property tax that should be designed accordingly, taking into account ability to pay of resident consumers to generate some income distribution at the local level. As regards service charges, they should be aimed at recovering the full costs of urban projects supplying these services.

SCOPE FOR REFORM: GENERAL PROPERTY TAX

The analysis suggests that the property tax would have to play a dual role in financing urban public services, depending on whether the benefits are measurable or not. The general

property tax should be used as a local tax to finance local services for which individual beneficiaries are unidentifiable. The liability under this tax should be made to vary according to ability to pay of local residents. The major problem here is to develop an index of ability to pay. Since the benefits due to the existence and operation of the local bodies get reflected in the values of properties located in the municipal jurisdiction, rateable value of property may be used as an index of ability to pay for general local services.

Given the supremacy of state rent control laws, rateable value of property should be derived from the provisions of rent control. It would be useful to create valuation boards in the states to develop information on rental values of properties, land values and costs of construction following the provisions of rent control. These may be standardised for different types of properties in different localities of a municipal jurisdiction. It should be made obligatory on the part of rent controllers and property assessors to use these standarised rates while fixing the standard rents and rateable values respectively.

This scheme will be helpful in reducing the extent of disparities in valuation of properties, on the one hand, and in integrating the state rent control acts and municipal acts, on the other. However, this may not impart elasticity to rateable values of properties because the state rent control acts do not contain sufficient provisions for escalation in rents for the purposes of property valuation.

It may be necessary to introduce in some form or other, reassessment of properties after certain intervals, if the objective is to tax away a part of appreciation in property values due to the activities of local governments. From the point of view of additional resource mobilisation efforts of local governments, reassessment of properties resulting in rising rateable values over time would ensure flow of funds to them for the maintenance of projects on general local services. But if the issue is looked at from the point of view of taxpayers, one may like to emphasise that unless properties are sold out in the market or they are let out at market rentals, appreciation in property values remains unrealised. Thus, it may not be appropriate to siphon off a portion of apprecia-

tion in property values from all categories of taxpayers. In other words, local authorities should get a part of capital gains when properties are sold out in the market.

Thus, the general property tax should be leviable on all categories of properties on tax base determinable under the Rent Control Act. In the case of tenanted residential properties, however, tax payments should be higher than those in the self-occupied properties and, similarly, commercial properties—both self-occupied and tenanted—should be asked to pay more than the tenanted residential properties because owners of the latter category of properties have thrown their properties in the market to earn income either in the form of rent or in the form of business profit. As regards institutional properties devoted to charitable and educational use, they should be treated at par with tenanted residential properties.

When, however, market transactions take place, a part of appreciation in property value should accrue to the urban local authorities for the reason that they could not tax appreciation in property value because it remained unrealised. The charge of the general property tax was deferred until market transactions took place. In this way, the general property tax would collect the whole amount payable to local government in one stroke at the time of market transactions in a bid to siphon off a part of appreciation which got accumulated over time. This may, however, require integration of general property tax with capital gains tax.

SERVICE CHARGE

Service charges should be determined independent of rateable value. As in the case of water supply, consumption tags may be found out, possibly indirectly in the case of other municipal services such as drainage, and scavenging. Once it is decided that the total cost of local government projects providing such services should be collected from the beneficiaries, *i.e.*, the extent of subsidy should be zero, there are two important problems to be solved. First, as the life of such projects would be generally 10/15 years or more, the process of recovering cost would have to be spread over the entire life-time of the capital project. The cost calculation

should include the allowances for depreciation of assets and interest on borrowed funds. Once the full cost is calculated, it would have to be distributed among the present and potential beneficiaries of these services. The beneficiaries would include present resident population, addition to the resident population during the lifetime of the capital project and the floating population, *i.e.*, population visiting urban centres particularly metropolitan cities during daytime to attend offices and to shop, trade and entertain. Thus the identification of the service population, *i.e.*, different categories of beneficiaries, over the life-span of the project assumes special significance.

As regards charging for these services from the relevant beneficiaries, there does not seem to be any difficulty so far as the growing resident population is concerned. Projections of population and building construction would be required for different urban centres. How to charge from the visiting population who do not fall within the taxing jurisdiction of localities is, of course, problematic.

Given the financial cost of a project and its potential users, the cost may be recovered either on the basis of per head of population or on the basis of some measurement of property located in the municipal jurisdiction. It may, however, be advisable to determine service charges on the basis of some measurement of property. The latter seems to be more acceptable because many of the municipal services are property-based. The service charges thus can be fixed per unit of carpet area. If it is difficult to undertake projection exercises to estimate the quantum of carpet area which would be forthcoming during the life-time of a project, the problem of charging can be attempted on a purely financial basis. Once the rate per sq. ft. has been fixed for different categories of properties with higher rates for non-residential properties, it should be subject to revision upwards every 3 to 4 years by a fraction of the percentage increase in the consumer price index.

The advantage of the system lies in the fact that the rent control provision would not be detrimental to the growth of service charges. Further, the structures constructed at different times would not be required to pay significantly different

amounts of service charges for roughly the same amount of services consumed. The demand for municipal services is taken to increase proportionately with the usable space. The above scheme also assumes that the requirement of municipal resources per sq. ft. carpet area is same for all properties in the different localities of a municipal jurisdiction.

One of the important limitations of fixing service charges per unit of carpet area is that it would entail higher burden on the smaller properties. This may thus violate the criterion of vertical equity. It may be noted here that test of verticle equity should apply where the ability to pay is a guide for determining the tax liability. In the case of service charges, rates should be related to the level of service consumed.

New Strategies for Financing Urban Development in India

*S.T. Veera Raghavan**

Urban Development is a concomitant of the process of economic development of a country. With increasing application of technology to agriculture and production processes, employment tends to shift from primary to secondary and tertiary sector activities, which are better performed in, and indeed require, agglomerations of people, resulting in the growth of urban settlements.

India attained a modest level of urbanisation even during the period of her chequered history under foreign rule. The process has been accelerated under the dual impact of planned economic development in the post-independence period coupled with the population explosion. The urban population increased six fold from 25.62 million in 1901 to 156.19 million in 1981, and the number of urban centres has increased from 1834 to 3245. Presently, the urban population is around 160 million. It is expected that the total population of India will be around 1000 million by the end of the century. The level of urbanisation is expected to be between 27 and 28 per cent in 1991 and between 31 and 32 per cent in 2001. This implies an absolute increase in urban population of about 70 million in the current decade to about 235 million in 1991 and a further 80 to 85 million increase to about 315 to 320 million by the year 2001.

Although India's level of urbanisation is still way behind the Western countries, the absolute magnitudes of the population size mentioned above are so large as to warrant a close look at the existing policies concerned with urban development. The growing urban population will place increasingly

*Joint Secretary and Financial Advisor, Ministry of Urban Development (Works & Housing), Government of India, New Delhi.

heavier demands on government for the provision of a host of necessary public services, such as transport, communication, water, sanitation, electricity, etc. Investment in urban infrastructure is essentially the responsibility of governmental agencies at the state and local levels. Given the massive size of investment required as well as its non-remunerative character, private investment is unlikely to be attracted to any significant extent. This underlines the need to evolve sound economic policies and financial strategies to regulate such public investments so as to secure the best possible returns and cost-benefit ratios.

It should be noted that the mere provision of urban infrastructure is unlikely to stimulate large scale urban development. It is important to time investment in urban services and shelter to coincide with investments in agriculture and industry, mining and commerce, which provide permanent sources of employment so that these types of investments can be fully productive. This should be the key objective of urban development planning.

In India, the planning for urban development has so far been in the nature of physical planning and implementation of civic facilities such as water supply and sanitation systems, roads, conservancy, etc. These are, no doubt, essential and inescapable investments for improving the quality of urban life. However, in the absence of a comprehensive national urban development plan made up, in turn, of regional and sub-regional plans, the investments so far undertaken can only be regarded as tentative or ad-hoc responses to a complex situation. For instance, the schemes known as Integrated Urban Development Programme (IUDP) implemented during the Fifth Five Year Plan, and the Integrated Development of Small and Medium Towns (IDSMT) in the current (Sixth) Plan, have been focused on towns of different sizes: over 3 lakhs population in the case of IUDP and under 1 lakh population in the case of IDSMT. In the absence of a comprehensive urban development plan, the selection of towns under these schemes cannot be said to have been based on economic concepts or even financial criteria. Again, large expenditures have been incurred by the central and state governments on schemes of slum clearance, environmental

improvement of slums and squatter resettlements in the metropolitan and class I cities. Perhaps, some of this expenditure could have been avoided if the influx of people in search of employment opportunities in those cities had been checked by creating such opportunities in selected smaller towns through well-timed investments.

Even in quantitative terms the Plan allocations for the Urban Development sector have so far been quite inadequate. The Sixth Plan outlay on Urban Development is less than Rs. 1,000 crores, of which the scheme of environmental improvement of urban slums accounts for Rs. 150 crores State Capital projects, Calcutta Metropolitan Development Authority and National Capital Region schemes account for Rs. 320 crores. The provision for IDSMT is only Rs. 96 crores. The Plan outlay for urban water supply and sanitation is Rs. 1750 crores, the greater part of which relates to the schemes of metropolitan and large cities.

The Task Force on Financing of Urban Development in its report to the Planning Commission (December 1983) has estimated that a total investment of the order of Rs. 8,000 crores (at 1981 prices) will be required during the period 1986-91 to achieve minimum acceptable levels of urban services, including some allowance for: (*a*) back log attributable to short investments in past periods, and (*b*) replacement of existing stock of urban infrastructure valued at Rs. 13,000 crores. In this forecast, the following have been identified as 'core' elements of urban infrastructure:

Land preparation,
Roads,
Street lighting,
Water Supply,
Sewerage/Sanitation,
Solid Wastes disposal, and
Storm water drainage.

The primary sources of finance for urban development are:

(*a*) Plan finance, *i.e.*, budgetary allocations of the central and state governments;

(*b*) Institutional finance provided by financing institutions like the LIC, and
(*c*) local resource mobilisation through land development by public agencies.

Given the constraints on budgetary resources and the claims of other priority sectors on these resources, institutional finance would seem to be the most promising source of funds for urban infrastructure development. Presently, institutional finance for urban development is being provided by the LIC in respect of water supply and sewerage schemes. The contribution of LIC is 6-7 per cent of its investible funds. The LIC loans amounted to Rs. 50 crores in 1981-82 and Rs. 60 crores each in 1982-83 and 1983-84. Institutional finance has the obvious merit of placing the local bodies and other borrowing agencies under compulsion to raise resources for servicing and repaying the loans. This, in turn, implies judicious selection of projects capable of generating revenues through user charges, etc.

Of the major components of urban infrastructure, water supply schemes have the best prospects of cost recovery through user charges. However, it is disconcerting to see that even these schemes are heavily subsidised by the state governments on account of inability or reluctance of the local bodies to increase the water taxes and rates to appropriate levels. According to a study carried out by the National Institute of Urban Affairs for the Eighth Finance Commission, all the municipal bodies in India together earned a revenue of only Rs. 64 crores in 1979-80 from water taxes, while the expenditure incurred by them on operation and maintenance of water supply and sewerage schemes amounted to Rs. 105 crores, besides capital expenditure of Rs. 71 crores. Even the Eighth Finance Commission has taken a rather dim view of the possibilities in this regard as quoted below:

> In many states, water supply schemes and milk supply schemes are run departmentally. While, as a matter of principle, the States should cover the full cost of these schemes by charging an appropriate price from the beneficiaries, we notice that this has not been achieved. For

the water supply schemes it may not be possible for the State Governments to recover the entire working expenses. We have, therefore, estimated that the losses incurred in 1982-83 on the running of water supply schemes would be gradually reduced to 50 per cent by the end of 1988-89.

[Para 3.18 (vi) of the Report]

In this context, some novel strategies successfully adopted in Latin American countries, notably Brazil and Mexico for financing, executing and operating water supply and sewerage systems are worth describing in some detail.

SANITATION FINANCING SYSTEM IN BRAZIL*

The National Plan for Basic Sanitation known as PLANASA was launched in Brazil in 1971. It is a long-term plan with five year targets for providing, extending and improving piped water supply and sewered sanitation facilities to the entire population. Attainment of financial self-support in the sanitation sector at the state level is also one of the objectives. The operational and financial devices set up for the execution of the PLANASA are integrated in the Sanitation Financing System, which involves a tripartite arrangement between the National Housing Bank (BNH), the state government and the State Sanitation Company [Diagrammetical illustration appended (see page 260)].

The BNH, which is the central organ of the system, was initially set up in 1964 as a government bank for financing ownership housing. Since it was soon realised that development of urban infrastructure was a prerequisite for housing, the BNH has enlarged its activities to cover water supply, sewerage, flood control, drainage and urban renewal schemes as well.

The main source of funds of the BNH is the FGTS (Guarantee Fund for Time of Service), *i.e.*, Provident Fund contribution required under the law to be made by employers

*The material given in the succeeding paragraphs was gathered during a study tour of Brazil and Mexico in June, 1984, under a WHO Fellowship.

in Brazil in respect of all categories of employees. The rate of contribution is 8 per cent of the employees' basic salary. Nearly 60 per cent of BNH finances are raised from this source. The other resources are the repayment of loans, savings bank deposits and loans from international bodies, like the World Bank. BNH pays interest at 3 per cent to the employees' provident fund account (besides indexation, *i.e.*, correction for devaluation of the currency). The interest rate for the savings bank deposits is 6 per cent, while the international loans carry interest rate of 7-8 per cent.

The financing of the schemes covered by PLANASA in each state is jointly done by the BNH and the state government, each contributing 50 per cent. This arrangement has come into vogue since 1973. (Prior to this, the Municipalities were also required to contribute at least 25 per cent of the costs, while the BNH and the local government contributed 37.5 per cent each. The arrangements were revised in 1973 on account of the weak financial position of the Municipalities). BNH contributions are in the form of loans. For water supply schemes, the rates of interest range from 2 to 12 per cent, depending on the level of economic development of the state concerned. Richer states like Sao Paulo are charged 12 per cent, while poorer states such as those in the north-eastern region are charged 2 per cent. BNH proposes the rates of interest chargeable to various state governments and obtains approval of the Federal Government thereon. These rates are special to the sanitation sector. The loans are repayable in 18 years after an initial moratorium equal to the construction period (usually 30 months) plus six months. For sewerage schemes the interest rates range from 2 to 10 per cent. The repayment and moratorium periods are also longer, *viz.*, 30 years and 54 months. The BNH loans are secured by a guarantee of the State Bank concerned and counter-guaranteed by the state government.

The state government's contribution of 50 per cent is provided from the state budget into a Fund set up for the purpose known as the FAE (Water Supply and Sewerage Fund). It is a revolving fund inasmuch as the repayments of loans are also credited to the fund for resource generation. Each state government is expected to contribute upto 5 per

cent of its revenues from taxation to the FAE subject to a minimum of 2 per cent. When the state government is unable to fulfil its commitment due to resource constraints, the BNH provides a supplementary line of credit to the state government to make up the short fall in contribution upto 1 per cent. BNH charges 1 per cent interest more than the normal rate for such supplementary contributions.

The state sanitation companies, one in each state, came into existence since 1973 in the wake of launching of the PLANASA by the BNH. It was necessary to set up these companies as the earlier arrangement of numerous municipalities implementing sanitation schemes in an uncoordinated way was felt to be quite unsuitable for such a large programme as PLANASA. Besides, the financial position of many of the Municipalities was very weak and they could not have access to public borrowings and other sources of funds. Under the revised arrangement the local bodies execute an agreement with the State Sanitation Company surrendering their jurisdiction in respect of basic sanitation schemes.

The State Sanitation Company of Sao Paulo State known as SABESP was established in 1973 by merging six other organisations related to water supply and sewerage. It is organised as a corporation, the major shareholder being the state of Sao Paulo owning about 91 per cent of the capital. The other shares are held by the participating Municipalities. Among the 573 municipalities into which the state is divided, 292 have their systems operated by SABESP.

BNH lending rate to SABESP is 10.5 per cent for both water and sewerage works while FAE's rate is 3 per cent for water and 2 per cent for sewerage works. The net accumulations in the FAE stood at about US $ 730 million in April, 1984.

The first stage in submission of proposals to the BNH and the state government is the preparation of a Global Feasibility Study by the state company. It is a five year programme based on forecast population growth, existing capabilities of the system, levels of services, and proposed targets. BNH and the state government scrutinise the programmes to ensure their technical and economic soundness in terms of

BNH guidelines and models as well as conformity to the priorities laid down by the state government. Differences in points of view are reconciled through discussions to arrive at a mutually acceptable programme. After the approval of the feasibility study and the programmes, the financial commitments are entered into between all the parties.

The Five Year Programme is revised and updated every year taking into account the available financial resources. It is noteworthy that the concern with the feasibility of isolated projects gave way to the study of the global feasibility of the State Sanitation Company. This method proved particularly suitable to Brazil's peculiarities. Isolated feasibility studies, adopted in the past in an attempt to secure positive return rates, led to the obvious result that economic feasibility was to be attained only by the larger cities. Consequently, smaller and poorer urban nuclei would be condemned to a permanent incapacity to return the investments made. Under the PLANASA framework, the company is not concerned with solving the problem of a particular area in isolation, it is in a position to display a broad sense of administration including the integration of a number of systems through which an efficacious handling of the overall situation is attained with no risk to the quality of service provided to each urban nucleus.

Under a Federal legislation enacted in 1978, rates for water supply and sewerage must conform to two conditions:

(*a*) *Economic and financial feasibility*: Operational income must be sufficient to pay for operational expenses, to provide an adequate return on investment and to generate financial resources to maintain the quantitative and qualitative levels of performance; and

(*b*) *Social feasibility*: The basic necessities of water and the corresponding sewerage services must be made available to the population at a price commensurate with the purchasing power of the people served.

SABESP's present average rate for water and sewerage services is US \$ 0.30/cu.m., at which value the operational income will be sufficient to cover entirely the debt service

besides operating expenses. It is also to be noted that the social rate, *i.e.*, the rate corresponding to a water consumption of upto 15 cu.m./month is US \$ 0.12/cu.m. when only water supply is provided and US \$ 0-20/cu.m. for water supply and sewerage. Presently, the part of the debt service not covered by SABESP's income is paid with grants provided by the state government. (Such grants to SABESP amounted to US \$ 37 m. or \$ 3 per capita for 12 m. consumers last year).

The PLANASA has made major progress since its inception in 1971. By 1980 the population served with piped water supply increased from 50 per cent to 81 per cent covering 2,600 municipalities. The original expectation that BNH would gradually be able to withdraw its financial support as the state revolving funds (FAEs) were built up, has not quite materialised as tariffs for water and sewerage services have not yet reached the desired level. The repayments from the Sanitation companies to the FAE, which had been projected at an average of 16 per cent of the investment have fallen short of the target. Nonetheless, the basic organisation of the PLANASA as expressed in the Sanitation Financing System (SFS) has provided a model in planning, resource mobilisation and execution of schemes. As the PLANASA has been instituted on a permanent basis, continuous improvement can be expected to be achieved and sustained in the years to come.

INSTITUTIONAL ARRANGEMENTS IN MEXICO

In Mexico, the investments in the Water Supply and Sewerage sector have been largely financed with federal funds and partly through loans from international agencies, such as the World Bank and the Inter American Development Bank. During 1974-1980, the annual investments in the sector were of the order of US \$ 320 m. On an average, the Federal Government has contributed 50 per cent of the funds in the form of grants and loans. Most loans were interest-free with repayment period of 10-20 years, but in practice were not repaid. The loans are channellised through the National Bank for Public Works—BANOBRAS, which is the main

financial agency for the sector.

BANOBRAS is a national credit institution which was first set up as a company in 1933. As a result of various statutory amendments, its functions have been expanded into a multiple banking institution. The bank has a high level Board of Directors headed by the Federal Minister of Finance with the Ministers for Human Settlements and Public Works as well as Tourism among its directors. Two state governors are also on its Board. The bank has branches in all the 32 states to provide service to the state governments including assistance in preparation of schemes. The capital stock of the bank is made up of shares held by the federal government, state, municipal, federal district governments and their quasi government entities, and bearer bonds subscribed by the general public.

The activities of the BANOBRAS are varied, since it operates many Trust funds and also functions as a multiple bank. So far as the Water Supply and Sewerage sector is concerned, three distinct systems are in vogue, *viz*.: (*i*) the Municipal Development Fund, (*ii*) Trust Fund for Water and Sewerage Works (FIFAPA), and (*iii*) Fund for Regional Development of three states having special problems occasioned by oil production.

The Municipal Development Fund is a 'soft window' to provide loans to the municipalities for water supply and sewerage works at low rates of interest—presently 5 per cent per annum, as compared to the normal rates of interest ranging from 10 to 18 per cent charged by the Bank for the schemes in medium cities with population upto 10,000. Lately, the latter rates have further increased upto 25 per cent.

FIFAPA is the most important financial conduit for the water and sanitation investments in medium cities. It has been instrumental in introducing the practice of cost recovery and in helping the federal government to reduce its grants to this sector. The revised pattern of grants and loans under FIFAPA for cities of various sizes is as below:

Medium size cities with population above 50,000.	40% grant and 60% loan

Cities with population between 5,000 and 50,000.	70% grant and 30% loan
Cities with population between 2,500 and 5,000.	90% grant and 10% loan
Cities with less than 2,500 population	100% grant

The loans are given for a period of 15 years with moratorium of 3 years for the period of construction. The National Development Plan has identified 60 prionity cities; presently schemes are in operation in 32 cities.

FIFAPA assistance has far been to the extent of full cost of the projects. Lately, an effort is being made to draw a contribution from the state government and municipalities concerned. Total financial assistance provided under FIFAPA amounts to US $ 478 million.

At present, the water and sewerage tariff levels and structures are inadequate in most cities. Minimum consumption levels are often too large, and there is not sufficient progressivity in rate slabs to allow cross-subsidisation. The Ministry of Urban Development and Ecology is completing a framework tariff study which will establish the basic guidelines and criteria to resolve deficiencies in the tariff levels and structures. The ultimate object is to define tariff structures to be implemented by each municipality/company so as to generate sufficient revenues to cover operating costs, maintenance and repairs, depreciation/debt servicing.

Effective from January1, 1983. the Ministry of Human Settlements and Public Works has been replaced by the Ministry of Urban Development and Ecology (SEDUE) with responsibility for planning and supervision of all water supply and sewerage systems in the country other than the federal district. At the same time, responsibility for construction of new systems and improvement of existing ones was legally transferred to the states. The states have created Water and Sewerage companies to operate and maintain the systems transferred to them. The scope of responsibilities entrusted to these companies ranges from those with state-wide responsibility to those responsible for a single system only. Some systems are still operated by the municipal departments. For

Water Board known as CEAPAS in 1981. It regulates and coordinates the activities of five semi-autonomous regional water and sewerage companies, which between them, look after about 40 per cent of the systems in the state. Eventually, these companies are expected to own and operate all the systems in state under overall supervision of CEAPAS.

SUGGESTED NEW STRATEGIES

Three ingredients of the Brazilian and Mexican models described above appear feasible of adoption in India at this time when new strategies for urban development are being explored:

(*i*) A national level institution exclusively for financing urban infrastructure projects;
(*ii*) Revolving fund to be set up in each state for financing urban infrastructure development; and
(*iii*) State level statutory Corporations for construction and operating water supply and sewerage systems with powers to levy and collect appropriate tariffs therefor.

URBAN FINANCING INSTITUTION

Since most of the urban infrastructure investments yield benefits over a long period of time like 25-50 years, it is clear that an institution is needed which can raise and then disburse long term funding. Specialised financing institutions have already been established in the country for other sectors, such as the NABARD for rural development, IDBI, IFCI for the industrial sector and the HUDCO and HDFC for the housing sector. General financing institutions like the LIC do not have the requisite expertise for appraising such schemes nor can be expected to evince the degree of involvement and initiative required for identifying such schemes and speeding up utilisation of earmarked funds. The proposed Urban Financing Institution (UFI) could either be promoted by the Reserve Bank of India and the financial institutions like the LIC as suggested by the Task Force or it could be set up as a public sector undertaking on the model of HUDCO under the

Ministry of Works and Housing. The latter model seems preferable since the Ministry of Works and Housing is the central ministry dealing with local bodies and it ought to provide the guidelines for the financing policies of the UFI.

The establishment of an Urban Financing Institution will prove to be a shot in the arm for the Urban Development sector in many ways. Even as a financing institution drawing funds from budgetary allocations in the form of equity capital supplemented by loans/debentures raised from thc LIC, GIC and commercial banks, it will ensure steady flow of a large volume of funds to the local bodies. Water Supply and Sewerage Boards and other urban development agencies. By developing expertise in the field, it will help in identification and formulation of projects based on their financial soundness. It can also be expected that the rigour of borrowing from the UFI would trigger off healthy competition between the local bodies, and bring about improvements in their management so that they become eligible for loan assistance. Surely, such discipline is unlikely to come about when the funds are largely provided to these bodies from budgetary grants. In this way, the UFI will also contribute towards generation of additionality of resources by the local bodies themselves.

By providing loans on a matching or graded basis, the UFI can ensure that the state governments and local bodies are fully involved in the selection of projects and that their priorities are duly respected.

To some extent the UFI can adopt a system of differential rates of interest as between remunerative and non-remunerative schemes. It may not be appropriate in the Indian context to charge different rates of interest based on the levels of economic development of the states, but cross-subsidisation could be achieved by adopting other criteria, such as size of population of cities, existing levels of services in relation to national average, etc. Similarly, municipalities having special difficulties in providing certain services could be given a concessional treatment (*e.g.*, water supply in hill stations, remote localities, etc.).

To facilitate adoption of low rates of interest and soft lending terms, it would be necessary to provide an interest-free capital base in the form of equity contribution to the

UFI. Such contributions have already been made in the case of other financing institutions like the HUDCO and REC. A large equity base will also serve the purpose of a revolving fund.

STATE-LEVEL REVOLVING FUNDS

State Governments especially in the more urbanised states, could set up a Revolving Fund for financial urban capital expenditure. Under the present system of devolution of Plan Finance to state governments through block grants and block loans for all State sector schemes taken together, the actual allotments to urban development are somewhat fortuitous and dependent on budgetary exigencies and shifting priorities of the state governments. A Revolving Fund set up with an initial seed capital and augmented with annual supplementation would eliminate such vagaries and ensure a steady pace of urban development in accordance with a long term plan. Repayment of loans from the fund by the municipal bodies and other agencies will, in due course, reduce the need for large contribution from the state government, if not eliminate it altogether. The Revolving Fund could be administered by a Municipal Finance Board or other such Governing Board in which the borrowing agencies are also represented.

WATER SUPPLY AND SEWERAGE BOARDS

For the urban water supply and sewerage systems, which involve large capital outlays as well as substantial operation and maintenance expenditure, special arrangements are called for, since they are clearly beyond the capabilities of the municipalities. Besides, with increase in population in the bigger towns and cities, it will be necessary to instal more technologically complex systems, metered connections and so on. At present, barring the municipal corporations of the bigger cities which have their own organisation for water supply and sewerage systems, such works are being undertaken either by the state public health engineering departments or by statutory boards set up in some states, *e.g.*, UP, Gujarat, Tamil Nadu. After construction, the systems in most cases, are handed

over to the local bodies for operation and maintenance, with some technical support from the departments/boards. The fixing and recovery of water and sewerage rates is left to the local bodies. Such a dichotomy in responsibilities has not been conducive to the attainment of tariff levels which would meet operating and maintenance costs and depreciation/debt servicing. Since it is being increasingly recognised that potable water is not a social good but an economic good produced at substantial cost, it is clear that the water supply industry has to be reorganised as a public utility in the same way as the Electricity Boards.

The UP Water Supply and Sewerage Act, 1975 is a step in this direction. It provides for a State level Jal Nigam to construct the projects and local level Jal Sansthans to operate the systems by levying water and sewerage taxes, and charges for water supply and disposal of waste water. The amalgamation of these bodies under a single Authority may be the next logical step. The advantage of a monolithic board is that it can take up schemes which are unremunerative but essentially needed, and subsidise them through revenues earned from remunerative ones. Besides, the systems operated by the board could extend beyond the limits of single municipalities. The Kerala Water and Waste Water Authority set up under a recent enactment (December 1984) conforms to the suggested model.

ROLE OF MUNICIPAL BODIES

No strategy for the urban development sector could be complete unless the municipal bodies are restored and strengthened to assume the role which rightfully belongs to them in this sector. At present, barring the municipal corporations of the bigger cities, most of the other municipal bodies are too weak and anaemic to take on this role. No serious efforts are being made by the state governments to strengthen the organisation and management of these bodies or their finances through systematic earmarking and devolution of funds. The steps required to be taken in this respect are known well enough since they have been discussed in numerous forums. The Report of the Study Group on Constitution, Powers and

Laws of Urban Local Bodies and Municipal Corporations submitted in 1982 exhaustively enumerates the reforms needed to be carried out urgently. In the present discussion on financial strategies the following measures may be emphasised.

Local bodies must accept their share of responsibility for raising additional resources for urban development. In the first instance they should raise their revenue resources at least to the level required for the maintenance and replacement of the infrastructure already created. The importance of this requirement can hardly be overstated. The Task Force on Financing of Urban Development has estimated the total *replacement value* of existing urban infrastructure to be in the region of Rs. 13,000 crores in 1981. At current average maintenance cost of 10 per cent of replacement value, the maintenance liability of the existing urban infrastructure would work out to Rs. 1,300 crores as compared to the total resources of the local bodies amounting to Rs. 800 crores (1980-81) not all of which was devoted to maintenance of assets. What is required is approximately a doubling of resources. This may not be considered too difficult a task and it would merely raise the share of municipal resources to about 8 per cent of the total public sector resources from the present level of about 4.5 per cent. For this purpose it would be necessary for the state governments to allocate more share of revenues or provide more grants, but it is also inescapable that the local bodies themselves should raise additional resources through taxes, user charges, etc. Unless this mobilisation of resources is achieved, it would be unwise to create more infrastructure which would require still more funds for their maintenance.

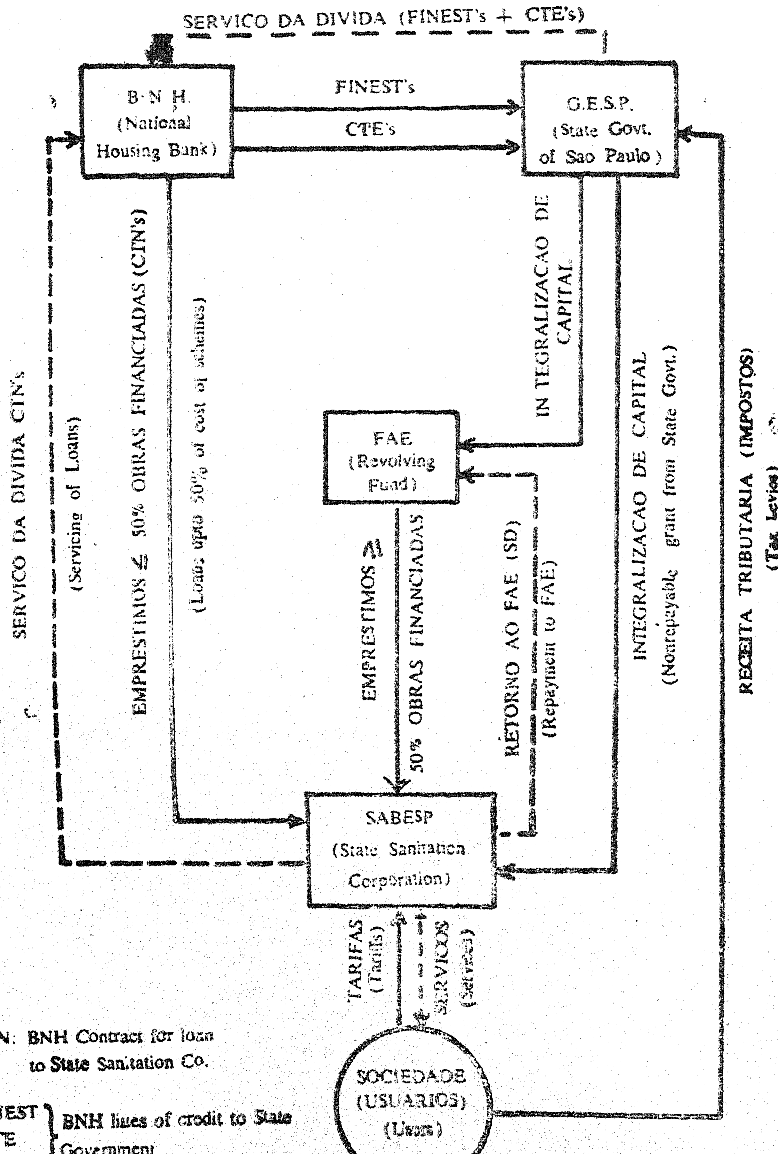
While sanctioning new schemes of urban development, it should invariably be seen whether the schemes, on completion, will generate additional revenues to cover not only operation and maintenance, but also depreciation/debt servicing. In the case of non-remunerative projects, it should be seen whether the local bodies are capable of generating the requisite additional funds through their general tax resources. In the case of weaker municipalities it may be necessary for the state governments to adopt various mixes of grants and

loans depending on their capacity to repay debt service charges from their revenue base. But there should be no further compromises, no relaxation of the principle that sufficient funds for operation/maintenance should be generated by all the local bodies.

To sum up, the main financial strategy for urban development in the future Plans would consist in making available substantial resources, chiefly by way of institutional finance, to be channellised through a specialist urban financing institution at the centre and state level Revolving Funds. Having regard to the magnitude of funds required for the construction and operation of urban water supply and sewerage systems and for their operation and maintenance after completion, this responsibility should progressively be transferred from the municipalities to state level statutory boards modelled on the state electricity boards and endowed with powers to levy requisite tariffs. Such an arrangement will lighten the burden on the local bodies and enable them to devote their limited energies and resources to other areas of urban infrastructure development. The UFI will provide loans to all the agencies on a matching or graded basis adopting the softest possible terms of lending. The criterion of additional revenue generation either by way of user charges or increase in general taxes to cover operation and maintenance and depreciation of the assets should be the decisive test for UFI's financial support to the local bodies and other agencies.

PLANASA
(National Plan for Sanitation)

FLUXO FINANCEIRO
(Financing arrangements)



CTN: BNH Contract for loan to State Sanitation Co.

FINEST
CTE } BNH lines of credit to State Government

Financing of Water Supply

A Case Study of Bombay

*R. S. Pednekar**

HISTORICAL BACKGROUND

The smooth and efficient civic administration of Bombay City is dependent on various factors. The most important is supply of adequate and potable water to the ever-increasing population. The population shot up to 82 lakhs in 1981 according to Census figures, and considering that per capita water consumption is 30 gallons per day, the total requirement comes to 2460 lakhs gallons. Also all the industries flourishing in Greater Bombay require about 20 per cent of the total supply of water presently available.

In the past attempts were made to tap sources of water from lakes and rivers, *viz.*, Vihar and Tulsi lakes, Tansa, Vaitarna and Upper Vaitarna rivers, by constructing dams at the sites. The water from these sources was tapped in the years 1860, 1878, 1885, 1957 and 1971 respectively. The total water available from these sources was approximately 350 mgd by 1971. However, this fantastic growth in population made it impossible for the BMC to meet the needs of the population and BMC had to think of an alternative source of water supply. This marked the birth of Bhatsa Scheme, with the cooperation of Government of Maharashtra, which was going to construct a dam on this river. It was then decided by the government to tap 300 mgd. for city in 3 phases each of five years and 100 mgd to be utilised for irrigation and part of it for power generation purposes.

Though the Government of Maharashtra had taken up the work of construction of Bhatsai dam for the BMC, it was an ambitious project for the BMC from funding point of view to make water available from this scheme. In 1971 when this

*Chief Accountant, Municipal Corporation of Greater Bombay.

scheme was envisaged the corporation was in receipt of annual open market borrowing (loan) at a concessional rate of interest, but was a very limited loan, *i.e.*, hardly 11 crores, and would not have been adequate at all. It would have been just sufficient for a small number of project works of BMC on account of the constraints of implementing Development Plan for Greater Bombay already undertaken.

PROJECT WORKS WITH WORLD BANK AID

As an alternative resource for obtaining funds, the BMC negotiated for World Bank for IDA Loan for this scheme. As per Bank's requirement the feasibility report was got prepared by appointing M/s. Binnie and Partners, Consulting Engineers, UK. According to their report it was decided that out of 6 alternative schemes, the scheme known as 'S' Scheme be posed for IDA assistance, but by dividing the whole scheme into 3 phases of 5 years each.

The whole scheme consists of following work:

(*a*) Augmentation of city's water supply from 350 mgd to 650 mgd in 3 stages, by increasing the supply by 100 mgd in each phase.

(*b*) Complete filtration of water supply by constructing Bhandup Water Treatment and filtration plant, and at the existing Panjarapur treatment plant.

(*c*) Equitable distribution of water supply, by constructing a number of service distribution reservoirs.

(*d*) Cover the entire area of Greater Bombay with a net work of sewerage system, by laying sewers and augmenting pumping facilities.

(*e*) Treatment and disposal of sewage, by constructing aerated lagoons, deep marine outfall, etc.

Phase I

Accordingly the first phase was posed for IDA assistance, having regard to the cost estimates based on 1972 prices, with built-in escalation at the annual rate of 5¼ per cent compounded.

An IDA credit of 55 million US Dollars or Rs. 46 crores was sanctioned, against the estimated cost of Rs. 121.7 crores for Phase I.

The main features of the agreement dated January 31, 1969 with IDA for Phase I are as under:

(*a*) The borrower of this loan is Government of India and agreement is between IDA and GOI, between IDA and Government of Maharashtra and IDA and BMC, and subsidiary agreement between GOM and BMC for passing on the proceeds of the credit.

(*b*) The loan sanctioned was 55 million dollars, *i.e.*, about Rs. 46 crores.

(*c*) The period of loan repayment (for amount actually drawn from IDA credit) is 20 years with 4 years moratorium.

(*d*) The credit is to be withdrawn from the credit account in accordance with a schedule which can be amended from time to time.

(*e*) The borrower has to pay to IDA a service charge at the rate of $\frac{3}{4}$th of 1 per cent on the principal amount of the credit withdrawn and outstanding from time to time, on six monthly basis and also pay interest at the rate of $\frac{1}{2}$ of 1 per cent whole repaying loan instalments.

(*f*) The borrower has to make the proceeds of the credit available to the Government of Maharashtra for relending to the BMC, under subsidiary loan agreement and the Government of Maharashtra is to charge interest at the rate of 6.25 per cent payable semi-annually for loan fund to be made available for a period from 20 to 25 years.

(*g*) BMC while implementing the project, set and maintain tariffs for water supply, sewerage and sewage disposal services to provide operating revenues which after meeting—

(*i*) all operating expenses, provision for depreciation and interest chargeable to operations; and

(*ii*) repayment on long term indebtedness to the extent

that such repayment exceeds the provision for depreciation;

will provide, together with any internal funds of water supply and sewerage department of BMC, available for investment including unutilised depreciation provisions for financial years commencing from April 1, 1974 and April 1, 1975 at least 33 per cent of capital expenditure, and for financial years commencing thereafter, at least 40 per cent of its aggregate capital expenditure in any two consecutive years, subject to adjustment mutually agreed to, thereafter.

Phase I was, however, completed at a total cost of Rs. 220 crores.

The emphasis of first phase, however, was on augmentation of water supply filtration aspect, wherein basically the city's water supply was increased from 320 mgd to 420 mgd duly filtered.

Phase II—Bhatsa Stage

Even with the completion of Bhatsa Stage I, there was a wide gap between supply and demand and, therefore, it was decided to take up further development of Bhatsa Stage II, popularly known as Bombay II. Under this scheme, further augmentation of water supply by 450 mld (100 mgd) totalling Bombay's water supply to 2500 mld was to be achieved. The feasibility report for Bombay II Water Supply and Sewerage Project was preparad by Consultants M/s Tata Consulting Engineers in 1979. The estimated cost of this was Rs. 354 crores (with Units in escalation at the rate of 8 per cent, 202 for water supply+152 for sewerage and disposal). On the basis of this estimate, negotiations were held with the World Bank and the loan of 196 million dollars was sanctioned for this Scheme.

The broad features of the second phase of the Scheme which is already ongoing, and is expected to be completed by the year 1986-87 are as under:

(*a*) Augmentation of water supply by 100 mgd, and its filtration by constructing a plant and pumping station

at Panjrapole, away from Bombay.

(*b*) Construction of Master Balancing Reservoir at Yewai away from Bombay and construction of a number of service reservoirs.

(*c*) Bringing all areas of Greater Bombay under subterranean sewerage system.

The terms of loan agreement for phase II which was executed on November 13, 1979 are practically the same, except that interest to be charged by Government of Maharashtra to BMC is at the rate of 6.75 per cent The second phase is due to end on March 31, 1985 and repayment (final) is to be made in August 2028.

It is envisaged that Bombay II Scheme will be completed by June 1986 and additional 455 mld fully treated water will be available for Bombay, making the total supply to Bombay about 2500 mld. Though formerly it was estimated that total cost for Bombay II will be Rs. 354 crores, it is now realised that it will cost about Rs. 640 crores. In the phase II, there is more emphasis on the sewerage work in total, *i.e.*, sewage collection, treatment and disposal aspect, thereby to clear the entire backlog by taking into account the needs up to 2000 AD which is required for the purpose of pollution control. Construction of marine outfalls may serve the purpose of keeping the sea shore free from pollution as a result of sewage, solid waste, etc., when the project of 3 km. length marine waterfalls is completed. The aerated lagoons for sewage will also contribute in solving the problem of water pollution which generally creates a health hazard.

BOMBAY III PROJECT

Considering the continuous pressure on municipal services, particularly water supply, the Municipal Corporation of Greater Bombay has already formulated a scheme for further augmentation of water supply by 450 million litres per day by implementing Bombay III Project. This project was already discussed with World Bank authorities and the consultans have submitted their feasibility report. The total block estimated cost of this project will be between Rs. 3,650

million and if included the cost contingencies, it will be Rs. 4,500 million. The largest single component of this third project is the transmission and distribution conveyance tunnels totalling some Rs. 1,164 million in preliminary estimates, (over 30%) of the whole project.

After study of this report in January/February, 1984, World Bank Team gave an "Aide Memoire" as follow-up action. They advised that detailed estimates for Bombay III Works should be framed and the tender documents should be ready at the time of appraisal. Accordingly the Consultants M/s. Tata Consulting Engineers were asked to take up this job. A detailed programme for preparing tender documents and block estimates for major items is also now prepared after discussion in details with World Bank authorities. Also method of inviting tenders and pre-qualification for contractor were also discussed. The appraisal of project by World Bank will be now held when block estimates and tender documents are ready. The World Bank team is shortly going to visit Bombay for this purpose. The financing plan for the phase III is under discussion with government and IDA authorities. If the credit assistance is not given by IDA, then BMC will have to go for the loan on commercial basis and that too at the higher rate of interest.

MIDDLE VAITARNA PROJECT

It is also desired to construct a dam on Middle Vaitarna, almost simultaneously with the completion of III stage. This will augment water supply by about 425 million litres per day. The implementation of these two augmentation schemes simultaneously is desirable on account of experience in last three decades, *i.e.*, ever increasing population, thereby increasing demand for water supply. However it appears from the initial talks with the World Bank's representatives, that they do not desire to allow the project to be taken up simultanesouly, but only prepare detailed plans and estimates, invite tenders (after due approval of IDA), and start the work only in phase IV.

EXPERIENCE IN FINANCING THE PROJECTS

Though there was assistance from IDA for projects in phases I and II, the BMC had to undergo a typical experience in monitoring and funding these projects. The main problem was, and is, how to generate internal funds together with operating revenue, to the extent of 40 per cent of the capital expenditure as per one of the conditions of the agreement. Traditionally it is considered that project works which give benefit to future generation are to be carried out from loan funds, so as to evenly tax the future and present generations. However, as BMC felt the acute need of large capital for the project, this condition was accepted as per agreement with IDA. This condition compelled the BMC to generate internal funds, even by over-taxing the tax-payers, to see that project progresses unhindered with adequate funds. Had the capital cost of phasewise project not been increased, it would not have given rise to serious problems of raising increased amount of internal reasons. However, the problem was that the loan assistance from IDA was a static figure irrespective of rise in capital expenditure, and could not be obtained proportionately to the increased actual cost. For example, the total aid as agreed to, was 55 million dollars, *i.e.*, Rs. 46 crores in phase I, against the originally estimated cost of Rs. 121.7 crores. However the project cost ultimately came to Rs. 220 crores, but the share of the IDA loan assistance remained the same. No other loan facilities like additional Open Market Borrowing was possible from the Government of India for this project, but even the regular quota of OMB remained on the same pattern, as in earlier years (in 1973 BMC was permitted to raise loan by way of OMB to the extent of only Rs. 11 crores).

Another reason for generating large funds imternally and through revenue budgets was and still is that neither Government of India gave sanction to the release of the reimbursement of capital expenditure by way of loan in time, as per agreement with IDA nor did the Government of Maharashtra released the matching share of the loan to BMC in time. This happened in both the phases, *i.e.*, Phase I and II, and BMC had to pursue both the governments vigorously in spite of the

agreement between Government of India (borrower), and IDA, and between Government of Maharashtra and IDA to release the credit to BMC expeditiously. As on December, 31,1984 the BMC is still to receive Rs. 39.56 crores from Government of Maharashtra.

The cumulative result therefore was that BMC had to rely heavily on internal generation of funds including revenue by overtaxing the tax-payers to meet the heavy and additional expenditure required for project. BMC had to manage with their own funds since year 1974-75. As the rate of progress of project was slow in first phase, on account of cement and steel shortage (but prices were not high) there was no need to have higher capital expenditure, as otherwise the taxes would have been still higher. The rate payers in Bombay are at present taxed very heavily, the maximum rate being 69.50 per cent of the total RV of the property (including State Education Cess and Employment Guarantee Cess) and the minimum 50 per cent, Municipal taxes plus employment guarantee cess at the rate of 3 per cent plus repairs cess (for island city only) ranging from 22 per cent to 250 per cent maximum of the RV in case of tenants, and 10 per cent in case of owners, which is constantly being resisted by them. In the cases where water and sewerage tax is not levied, the BMC is recovering water and sewerage charges. The range of rates is Rs. 3 per 10,000 litres for residential and Rs. 60 maximum for commercial and industrial use. Considering the total percentage of municipal property tax which is at present levied, *i.e.*, at 24 per cent (plus 1.5 per cent fire tax and minimum ½ per cent of the RV as Education Cess) and the water and sewerage taxes which are also at 24 per cent of the RV, it is felt that further rise in revenue by way of water or sewerage taxation (so as to help generate 40 per cent of the total estimated project cost) will mean not only an overdose of taxation but it will amount to meeting practically major portion of capital expenditure through revenue budget only, which is not a fairly accepted practice for carrying out project works.

What happened in phase I, as described above, also continued in phase II. Though the originally estimated cost of the

project in phase II increased from Rs. 354 crores (Rs. 202 for water supply+Rs. 152 crores for sewerage project) to Rs. 640 crores (now redefined and rephased to Rs. 578 crores), *i.e.*, Rs. 340 crores for water supply+Rs. 300 crores for sewerage), the share of IDA loan remained static, *i.e.*, only Rs. 196 million dollars—say Rs. 222 crores at current exchange rate. This means the BMC will have to generate Rs. 356 crores, as internal generation of funds to complete project II. Moreover the Government of India recently has adopted certain policy by adopting additionality formula by which it releases only 70 per cent of the loan so received from IDA which may result in inflicting or setback for BMC's water and sewerage project to some extent.

It is, therefore, felt that unless the government comes to the rescue of BMC with larger amount of loan, say by giving additional quota of OMB, it will be very difficult to complete the project in time as speedily and satisfactorily as the circumstances demand, and perhaps the citizens will have to face water shortage problem again in next 10 years, particularly on account of ever-increasing population, which shows no signs of abating.

*Institutional Development and Fiscal Policy for Financing Housing Programmes**

Vinay D. Lall†

MAGNITUDE OF THE HOUSING PROBLEM

The Working Group on Housing for the Seventh Plan, Planning Commission, has estimated the housing shortage in 1981 at 21.1 million units (16.1 million units in rural areas and 5.0 million units in urban areas) and it has further projected the shortage to increase to 24.7 million units in 1985 (18.8 million units and 5.9 million units in rural and urban areas, respectively). These estimates do not, however, suggest that all the families without a dwelling unit of their own are wholly shelterless. With typical Indian ingenuity, the majority of 'houseless' families manage to find a roof over their head, at times gate-crashing into the homes of relatives, friends and acquaintances, and at other times, putting together what cannot meet the conventional definition of a house, but which, nevertheless serves as a dwelling unit, even if basic amenities and facilities may not be available.

The sheer magnitude of the housing problem makes it necessary to 'plan' a phased programme to eradicate the housing shortage. Hopefully, the Government of India is going ahead with the task of providing a dwelling to each household in the country by 2000 AD. In this endeavour, as per the government policy, the thrust in housing sector

*The paper is based largely on a Report recently prepared for the Ministry of Works and Housing, Government of India. For details see the Report, Vinay D. Lall, *Housing Finance in India*, National Institute of Public Finance and Policy, New Delhi, 1984.

†Director, Centre for Development Studies, New Delhi.

activity is programmed to come from the private sector. The public sector programme has been (and would continue to be) a limited one, restricted to providing subsidised housing to the rural and urban poor including the EWS, slum dwellers and dock and plantation workers. The public sector would also provide financial support to housing boards/development authorities to undertake land acquisition, and development and housing construction, primarily for the LIG and MIG. The private sector would have to play the major role in augmenting the housing stock.

TYPE OF HOUSING FINANCE NEEDS

Irrespective of whether the public or the private sector constructs the house, financial resources would be needed, and on a massive basis. The financial support will be required at two stages, namely:

(*i*) at the construction stage, for acquisition and development of land and construction of the shelter; and
(*ii*) at the house acquisition stage, by the home owner.

A home owner, the ultimate beneficiary of a housing programme, can, under present conditions, buy a house on a hire-purchase basis, or on an outright basis. The first option is available primaraly in public housing programmes of state housing boards and development authorities, under which the house construction agency also functions, implicitly, as a housing finance intermediary. The second option is being increasingly available in public housing programmes under self-financing schemes and is almost the only option in private sector housing programmes, and the home owner is expected to pay the full cost of the house in a few instalments, with 80 per cent to 90 per cent of the total estimated cost being paid before the actual possession of the dwelling unit. The practice, which has been in vogue in construction activities of private development agencies and builders for over two decades, has become an accepted strategy for financing public sector housing construction programmes.

The need is thus for two types of housing finance, and at

different stages of the housing programme. In the first stage 'construction' finance of 'bridge' finance is required at the construction stage (which includes land acquisition and development of land and subsequently 'home' ownership finance is required at the stage of handing over the house to the ultimate beneficiary. It is possible to combine both the activities through a single agency, which would provide the home to the home owner on a hire-purchase basis. In effect, the housing agency is provided a short-term assistance in the form of a refinancing facility, (apart from initial bridge finance support for institutions commencing construction activity). Direct assistance to home owners would, *a priori* provide a greater flexibility of choice of a house to the potential home owner and by reducing the stages between the ultimate financing intermediary and the home owner, would also reduce the costs to the latter.

THE PRESENT HOUSING FINANCE MARKET

Before we examine the type of housing finance system that has to be developed to strengthen financial infrastructure for the housing sector, it would be desirable to examine the existing system, so as to identify the gaps and inadequacies of the present system which would have to be removed by the proposed financial infrastructure for housing.

The Indian housing finance market has two distinct sectors, the formal housing finance market (FHFM) and the informal housing finance market (IHFM). The FHFM includes specialised housing sector institutions like the HUDCO, the HDFC, the Cooperative housing finance societies and the state housing boards/development authorities, and also general investment institutions like the LIC, the GIC, and commercial banks. The specialised institutions are expected to function only in the housing sector. The primary function of the general financial institutions, on the other hand, is to protect the interests of their main beneficiaries, whose savings they command, and housing finance is a supplementary effort, triggered by their search for alternative and secured investment outlets (say, in public sector intermediaries), fulfil national commitments to social-oriented sectors (housing

being one of them) and also to help their beneficiaries (LIC policy holders) to some extent.

The IHFM is the more important component of the Indian Housing finance market. It includes the indigenous money lenders and bankers, friends and relatives and employers, who supplement the personal resource mobilisation efforts at the individual home owner. The home owner may utilise his cash savings as well as the savings he can mobilise through liquidation of assets, self-acquired or inherited.

Table 1 presents the structural composition of the Indian housing finance market, based on estimated annual investment flows into financing the Gross Domestic Capital Formation (GDCF) in housing and related sectors.* Over three-fourths of the annual financial resources come from the IHFM, whereas 22.6 per cent come from the FHFM. The Central and state governments provide, through the budgetary allocations, a substantial proportion of the finances, though the proportion has gone down significantly in the last decade and a half. The contribution of specialised financial institutions has been gradually increasing, with the spread of activities of the HUDCO, the HDFC, and the Cooperative societies. There has also been some increase in the investment flows through the provident fund organisations, but the relative contributions. in terms of total financing, has not improved in the case of the commercial banks, the GIC and the LIC to any noticeable extent. Rather, the share of the LIC has been declining. It may also be pointed out that the overall role of the specialised financial institutions, is still not substantial enough to make a discernible impact on the role of the IFHM.

Two important characteristics of the FHFM come out from an analysis of its operations. In the first place, there is relatively little interaction of the FHFM with the national capital market. This is due to several factors, such as the non-availability of a mass level institutional framework to mobilise savings at fairly competitive rates of interest, the

*The estimations are subject to some inadequacies arising out of the fact that the CSO data on GDCF includes also commercial real estates and business services but excludes housing activity of public sector undertakings and of the government in rural areas.

TABLE 1 ANNUAL INVESTMENT FLOWS INTO THE HOUSING SECTOR

(*Rs. in crores*)

Year ending March 31	*1970-71*	*1975-76*	*1980-81*	*1981-82*	*1982-83*
1. *Formal Housing Finance*	535.77	267.15	625.50	764.03	944 01
	(55.35)	(18.10)	(19.99)	(20.66)	(22.59)
(a) *Budgetary*[1] *allocation*	404.48	101.65	216.03	288.27	332.88
	(47.98)	(6.89)	(6.90)	(7.79)	(7.97)
(i) Centre	103.94	33.31	82.61	104.71	129.19
	(10.74)	(2.26)	(2.64)	(2.83)	(3 09)
(ii) State and Union Territories	360.54	68.35	133.42	183.56	203.69
	(37.25)	(4.63)	(4.26)	(4.96)	(6.91)
(b) *General financial institutions/organisations*	39.18	77.03	178.03	210.31	288.93
	(4.05)	(5.22)	(5.69)	(5.69)	(4.87)
(i) LIC	39.18	74.01	93.49	129.85	145.66
	(4.05)	(5.01)	(2.99)	(3.51)	(3.49)
(ii) GIC	—	0.13[5]	7.18	9.44	10.08
		(0.01)	(0.23)	(0.26)	(0.24)
(iii) Commercial banks[2]	—	—	(11.19)	(7.82)	(6.82)
			(0.36)	(0.21)	(0.16)
(iv) Provident funds	—	2.89[6]	66.17	63.20	126.37
		(0.20)	(2.11)	(1.71)	(3.02)
(c) *Specialised housing finance institutions*	32.10	88.46	231 44	265.45	322.20
	(3.32)	(5.99)	(7.40)	(7.18)	(7.71)
(i) HUDCO	0.50	35.83	89.97	105.24	131.78
	(0.05)	(2.43)	(2.88)	(2.85)	3.15)

(*ii*) Apex co-opera-tive[3] doviryird	0.23	6.49	48.14	54.59	61.68
	(0.02)	(0.44)	(1.54)	(1.47)	(1.48)
(*iii*) Primary coopera-tive[4] societies	31.38	46.14	72.34	79.15	86.60
	(3.24)	(3.13)	(2.31)	(2.14)	(2.07)
(*iv*) HDFC	—	—	20.99	26.57	42.14
			(0.67)	(0.72)	(1.01)
2. *Total Informal Housing Finance* (3-1)	423.23	1,208.85	2,503.50	2,934.41	3,235.22
	(44.65)	(81.90)	(80.01)	(79.34)	(77.41)
TOTAL[7]	968.00	1,476.00	3,129.00	3,698.44	4,179.23
	(100.00)	(81.90)	(100.00)	(100.00)	(100.00)

[1]Includes capital and revenue expenditure on housing.

[2]Relates to calendar years 1980, 1981 and 1982.

[3]Estimated for 1980-81, 1981-82 and 1982-83 on the basis of actual growth between 1977-78 and 1978-79, the last two years for which data have been published. In 1977-78 the amount was Rs. 33.19 crore and in 1978-79 the amount was Rs. 37.57 crore.

[4]Estimated for 1980-81, 1981-82 and 1982-83 on the basis of actual growth between 1970-71 and 1975-76. The published amount for 1970-71 is Rs. 31.38 crore and the amount for 1975-76 is Rs. 46.14 crore.

[5]Data from Finance for Housing Schemes—Report of the Working Group on the Role of the Banking System, RBI, p. 65.

[6]Gross domestic capital formation in housing and related sectors, including commercial, real estate and business sectors.

[7]Figures in parentheses are per cent of total.

SOURCES:
1. Annual Reports of concerned institutions.
2. Government of India, *Public Finance Statistics*.
3. Reserve Bank of India.
4. CSO National Income Accounts.
5. Vinay D. Lall, *Housing Finance in India*, 1984.

need of the housing sector for basically long-term credit whereas the capital market may supply mainly short-term funds, the non-availability of attractive saleable financial assets from the housing sector and the general disinclination of commercial banks to finance housing activity as a normal business operation. The second important characteristic of the FHFM is the unproportionate dependence of specialised institutions of the public sector, either the central government or the state government and the LIC and the GIC. These institutions have shown little interest (or success!) in tapping household savings in the country.

In the IHFM, the most important supplier of financial resources is the extended family of the home owner. As shown in Table 2, the individual home owner mobilises his own resources from his cash and bank savings as well as by liquidation of assets, self-acquired or inherited. In this manner, he is able to mobilise about two-thirds of the requisite resources, though there are variations in the pattern, depending on the income level of the home owner, the cost of the house and the location of the property, or, more importantly, the home owners place of work. Relatives and friends also provide substantial support, relatives meeting, on the average, about one-tenth of the total finances required and friends about 4 per cent. The indigenous bankers and money lenders play a very crucial role in the case of people in the low income group, residents in relatively smaller towns and with casual and seasonal incomes. In the informal housing sector (including slums and squatter settlements), the role of the indigenous money lenders is even more important.

The major inadequacies and gaps in the existing system of institutional financial intermediation in the Indian housing sector may be briefly enumerated:

1. Institutional inadequacies, stemming from the terms of credit, which are inherent in any conventional financing system:

    (*a*) Adequate income level for eligibility for loan;
    (*b*) Regular and verifiable flow of income; and
    (*c*) Acceptable collateral.

2. Operational inadequacies of an under-developed housing finance system, which can be traced to the following factors:

   (*a*) Loan amount linked to income of home owner and minimum contribution of home owner, subject to monetary ceiling on loan amount;
   (*b*) Large initial contribution of home owner;
   (*c*) Home-loan to home-cost-ratio;
   (*d*) Low standard amortisation schedule;
   (*e*) Computation of EMI without taking into account potential income levels of the borrower;
   (*f*) High rate of interest;
   (*g*) Complicated procedures; and
   (*h*) Irrational affordability criteria for low-income housing programme.

PROPOSED FINANCIAL INTERMEDIATION

In view of the inadequacies of the existing financial institutional infrastructure, the objectives of the proposed national housing finance system include *inter alia*:

(*i*) To mobilise, on an institutional basis, an increasing volume of household savings (through provision of attractive savings schemes), so that a larger proportion of national income, than at present, is directed towards the national savings efforts, and a growing proportion of the increased volume of savings flows as investments into the housing sector;
(*ii*) To mobilise national resources through the national capital market (the private corporate sector and the public sector) and from domestic contractual savings organisations and the international capital market;
(*iii*) To attain a more efficient allocation of funds and, in particular, a reallocation of funds from surplus areas to deficit areas;
(*iv*) To attain a closer interaction between the formal and the informal housing finance markets;
(*v*) To develop and strengthen the primary mortgage-

TABLE 2 PATTERN AND STRUCTURE OF HOUSING FINANCE OF HOME OWNERS IN THE FORMAL AND INFORMAL HOUSING SECTOR

	Formal sector (596)		*A. Informal sector (65)*		*B. Informal sector (59)*		*Total (720)*	
	Rs. lakh	*Per cent*	*Rs. lakh*	*Per cent*	*Rs. lakh*	*Per cent*	*Rs. lakh*	*Per cent*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. *Formal Housing Finance Market*	93.84	20.29	1.53	10.71	0.01	2.13	95.38	19.98
(*a*) *Specialised housing finance institutions*	11.41	2.47	0.51	3.57	—	—	11.92	2.50
(*i*) HDFC	0.61	0.13	—	—	—	—	0.61	0.13
(*ii*) State housing board	2.40	0.52	—	—	—	—	2.40	0.50
(*iii*) Cooperative housing finance/ building societies	8.40	1.82	0.51	3.57	—	—	8.91	1.87
(*b*) *Other financial Institution*	29.12	6.30	0.16	1.12	—	—	29.28	6.13
(*i*) LIC	14.95	3.23	0.04	0.28	—	—	14.99	3.14
(*ii*) Banks	14.17	3.07	0.12	0.84	—	—	14,29	2.99
(*c*) *Others*	53.31	11.52	0.86	6 02	0.01	2.13	54.18	11.35
(*i*) Provident Fund	20.49	4.43	0.59	4.13	—	—	21.08	4.42
(*ii*) Employer	23.68	5.12	0.15	1.05	0.01	2.13	23.84	4.99
(*iii*) Others	9.14	1.97	0.12	0.84	—	—	9.26	1.94

2. *Informal Housing Finance Market*	368.74	79.71	12.75	89.29	0.46	97.87	381.95	80.02
(a) *Self-generated*	266.98	57.72	7.33	51.33	0.36	76.59	274.67	57.54
(i) Cash	100.01	21.62	2.04	14.28	0.27	57.44	102.32	21.44
(ii) Bank deposits	146.19	31.61	3.08	21.57	0.05	10.64	149.32	31.28
(iii) Savings during construction	4 07	0.88	—	—	—	—	4.07	0.85
(iv) Others	16.71	3.61	2.21	15.48	0.04	8.51	18.96	3.97
(b) *Disposal of assets*	37.49	8.10	1.63	11.42	0 01	2.13	39.13	8.20
(i) Shares	0.70	0.15	—	—	0.01	2.13	0.71	0.15
(ii) Jewellery	5.35	1.16	0.57	3.99	—	—	5.92	1.24
(iii) Land and building	19.96	4.31	0.66	4.63	—	—	20.62	4.32
(iv) Agricultural property	10.41	2.25	0.30	2.10	—	—	10.71	2.24
(v) Others	1.07	0.23	0 10	0.70	—	—	1.17	0.25
(c) *External sources*	64.27	13.89	3.79	6.54	0 09	19.15	68.15	14.28
(i) Relations	44.21	9.56	2.47	17.30	0.04	8 51	46.72	9.79
(ii) Friends	16.61	3.59	0.64	4.48	0 03	6.38	17.28	3.62
(iii) Indigenous bankers	0.60	0.13	0.59	4.13	0.01	2 13	1.20	0.25
(iv) Others	2.85	0 61	0.09	0.63	0.01	2.13	2.95	0.62
TOTAL	462.58	100.00	14.28	100.00	0.47	100 00	477.33	100.00

SOURCE: As in Table 1.

Notes: 1. Figures in parentheses are number of home owners in each category.

2. 'A' includes permanent but unauthorised housing units and 'B' includes slum and squator settlements.

originating market so that its services may spread to hitherto under-serviced/unserviced sectors, and yet it may maintain its viability; and

(*vi*) To attain a greater velocity of circulation of available financial resources within the housing sector, through refinancing operations.

Thus, a pre-requisite for a viable housing finance system is the development of an institutional structure spanning the entire country. As public resources through the existing financial institutions are limited, it is necessary that the system should be built through an expanding number of institutions at the regional and local level that mobilise resources specifically for housing, directly from households. An institutional set-up which depends unduly on government allocations tends to rapidly lose its dynamism and flexibility.

In the first place, national-level institution should be established to promote and build independent local institutions. The local institutions would gradually have to develop the delivery system of housing finance to all groups of people in the country and spread their operations progressively to low-income and other less credit-worthy beneficiaries. The process of institutional development, therefore, has necessarily to have a long-term perspective. However, a short-term perspective in the context of the impending Seventh Plan would be of immediate importance.

The viability of any housing finance system has to be ensured and will depend not only in its capacity to mobilise household savings at regional levels and to provide home loans, but also on the availability of support facilities to home loan originators to spread their risks and to have an access to some form of refinancing. At the same time, it is essential to establish a forum which would contribute towards developing appropriate housing and housing finance policies.

A three-tier housing finance system is, therefore, proposed. The first tier would be a national level institution which would serve as an apex body. Its functions would be:

(*a*) to promote and develop housing finance intermediation through decentralised housing finance banks/

corporations;

(*b*) to mobilise resources;

(*c*) to develop manpower development programmes for the decentralised institutions; and

(*d*) to develop management information, monitoring and evaluatory system, data bank, etc.

Decentralised institutions would be set up at the regional, state/town levels, to serve as the operative units of a viable housing finance system. These institutions, which may be called housing savings and loan banks (HSLB), would mobilise household savings and provide home-loans to individuals. In order to coordinate the grassroot operations of the HSLBs, the state level/regional tier in the financial infrastructure may be gradually developed.

The financial infrastructure should be further strengthened with some refinancing and mortgage insurance facilities. It would be desirable not to establish separate institutions for providing these services. A national apex body could provide these services in collaboration with the GIC or the Deposit Credit and Guarantee Corporation (DCGC).

FISCAL POLICY

The mobilisation of household savings would have to be a crucial function because the ultimate success of the proposed housing finance system would depend upon its capital base. Suitable savings instruments would have to be developed to cover the savings habit and potential of a wide range of people. The factors like the income of the individual, the nature of income-generating activity and age and location of the individual would be important determinants of appropriate saving instruments. In this respect, fiscal policy can play a crucial role, in improving the rate of return of the savings mobilised by the housing sector institution and stimulating people to invest their savings in housing. A few recommendations, with the twin objectives of attaining, through the fiscal instruments, an enhanced level of savings

and investments in the housing sector, are recommended for consideration:

1. Housing investment allowance for home owners;
2. Depreciation allowance on non-rental property for home owners;
3. Extension of scope of Section 80 L of Income Tax Act, 1961, to provide a separate monetary ceiling of Rs. 2,000 for annual income from investments in housing finance institutions over and above. Rs. 7,000 now available for incomes from investments in specified monetary assets.
4. The continuation of deductions of interest on home loans under Section 24 of the Income Tax Act, 1961. A monetary ceiling may be imposed on the total amount of relief.

Road Transport in Bombay Metropolitan Region: The Issues Relating to Financial Management

*P.V. Venkatakrishnan**
and
Amitabh Kundu†

INTRODUCTION

The transport system in the Bombay Metropolitan Region (BMR) has several interesting characteristics that distinguish it from any other city transport. Since the city of Greater Bombay, the second largest in India, is located on a narrow strip of land jutting out into the Arabian Sea, the trips are largely unidirectional—from north to south before the office hours and the converse after the office hours. The east-west linkage is developing slowly with the diffusion of development in the New Bombay region. The traffic pattern is unique as the suburban railways carry most of the unidirectional flows while the roadways provide basically the feeder services. In no other city, similar complementaries have emerged in the operation of the rail and road services. It is, therefore, important to analyse the economics of the road transport sector which is, by design, playing a limited role by withdrawing itself from the long distance movement in the major transportation arteries and by operating in areas with no competition from the railways.

A study of the road transportation sector in the BMR is

*Chairman-cum-Managing Director, Delhi Transport Corporation, New Delhi.

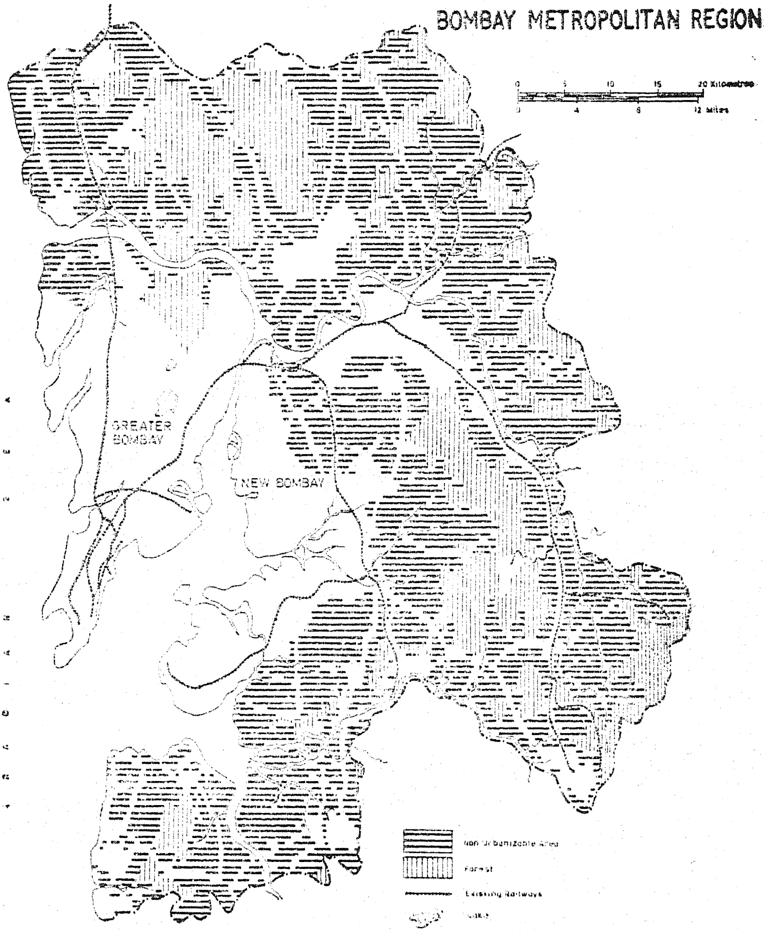
†Faculty Member, Jawaharlal Nehru University, New Delhi.

also interesting from the management point of view. A Municipal Undertaking, a State Corporation and till recently, a Company, were simultaneously operating in the region with their roles being very well defined to avoid wasteful competition. An analysis of the financial and management structure of the three road transport agencies in the BMR, therefore, is likely to provide insights into most of the problems of financial management currently faced in the metropolises. It would also provide an opportunity to examine the relative efficiency of different modes and organisational forms in providing different types of transport services.

In the next section of the present paper, an attempt has been made to look, somewhat critically, at the organisation of the transport system within the BMR and highlight the salient features. The third section examines the financial performance of the concerned transport undertakings in conjunction with their physical performances and evaluate their relative efficiency and contributions to social welfare. In the final section, a few policy recommendations have been made to improve the functioning of the overall transport system in the region in terms of financial viability, social equity and balanced regional development.

THE SETTING

The city of Bombay consists of seven islands which got integrated through the reclamation of shallow marshes separating them, all together forming a two kilometer wide strip of land, going eighteen kilometers north to south. India's largest port is located at the southern tip of this strip, on the eastern side facing the sheltered water of Thane Creek and across it the new port of Nhava-Sheva and the urban growth of New Bombay. Growing northwards from its southern focus of activities, Bombay has, over the past few decades, spread into the neighbouring districts of Thane and Raigarh. In view of these developments, the BMR which includes, besides the Greater Bombay District, substantial portions of the above two districts that have come under the direct influence of the city, notified in 1967 (see Map on next page). With the objective of relieving the pressure of population on the



Bombay island, the City Industrial Development Corporation (CIDCO) commenced the project to develop the New Bombay area, falling within the BMR. The Bombay Metropolitan Region Development Authority (BMRDA) was set up in 1975 to implement and coordinate the developmental activities within the region. Some of the demographic characteristics of the various spatial units within the region have been shown in Table 1.

TABLE 1 SELECT DEMOGRAPHIC CHARACTERISTICS OF THE SPATIAL UNITS FALLING IN THE BMR

Units	*Population 1981 (in lakhs)*	*Density per square kilometer 1981*	*Growth rate of population (1971-81*
1. Greater Bombay Distt.	82.4	18,833	38
(*a*) Urban	82.4	18,833	38
(*i*) Island	32.8	47,810	07
(*ii*) West Sub.	28.6	13,588	68
(*iii*) East Sub.	21.0	13,237	76
(*b*) Rural	—	—	—
2. Thane Distt. in BMR	22.8	1,061	70
(*a*) Urban	14.7	5,247	93
(*b*) Rural	8.1	434	40
3. Raigad Distt. in BMR	3.6	359	18
(*a*) Urban	1.4	1,695	45
(*b*) Rural	4.2	282	11
B M R	110.9	2,663	42
(*a*) Urban	98.6	12,269	44
(*b*) Rural	12.3	366	29
Maharashtra	627.0	204	24
(*a*) Urban	220.0	NA	40
(*b*) Rural	407.0	NA	17

The main component of the transport system in the region is the suburban railways that account for 75 per cent of the total passenger kilometers and 50 per cent of the passenger trips in the region. The transport lines radiate northward from the southern tip in five north-south corridors, going almost parallel in the major part of their routes. Two western corridors are operated by the Western Railways while the remaining three in the east are operated by the Central Railways.

The suburban rail in the BMR is suplemented very efficiently by the bus system run by the Bombay Electric Supply and Transport Undertaking (BEST) within Greater Bombay, till recently by the Bombay Metropolitan Transport

Company (BMTC) connecting points in Greater Bombay with New Bombay areas and by the Maharashtra State Road Transport Corporation (MSRTC) in the outer region of the BMR. While the bus transport carries 25 per cent of the transport trips in the outer region, the figure is as high as 47 per cent in Greater Bombay. The BEST operates a fleet of 2291 of which 864 are double-deckers, while BMTC is running a fleet of less than 200. The MSRTC has about 11,000 buses of which a fleet of 1390 operates in the Thane and Raigad divisions of the BMR.

Defining a journey from origin to destination as one trip, *viz.*, the multi-modal travel to reach the destination being counted as one trip, the BMR generated 7.1 million trips everyday on its public transport system in the year 1979-80. The intercity buses numbering about 1100 carried 48,000 passengers while railways accounted for 0.1 million intercity passengers, the remaining trips being generated within the city. The car trip figure was 0.3 million accounting for 0.5 million car borne passenger trips. Besides, there were 30,000 taxis and 16,000 autorickshaws.

In the Bombay island which in the core of the city, 82 per cent of the trips are made by the public transport, the traffic flow being concentrated within a sixteen hour period of the day generating peaks of severe intensity. The average rail trip length is 20 kilometers while that of the bus is 5-6 kms. only.

The terrific pressure on the system has led to the planning of the sixth and seventh north-south corridors and the development of an east-west link from Bandra-Kurla complex to Panvel in New Bombay. The Vasai bypass in Diwa is also expected to decongest the core of the city.

The BEST had started as a Tramway Company. Following the pattern in those days, it also supplied the electricity necessary for the tramway operations. For a short period, it operated trolley buses as well. In 1947, it was taken over by the Municipal Corporation as this form of organisation was considered to be the most efficient in the case of city transport. It stopped its tram operations in 1964. Presently, it is the only undertaking in India which has the dual responsibility of supplying electricity and transport services to the city

dwellers and which cross subsidises its operation in the latter by that of the former. It is also the first in India to introduce the double-decker buses (before that it operated double-decker trams) and today has the largest fleet of these buses in the country. The BEST has been following the model of the London Transport in many ways and has established itself as one of the best city bus operators with "a well trained and well behaved crew".

The BMTC was a relatively small company functioning under the Companies Act. This was set up by the CIDCO to connect Greater Bombay with New Bombay when it took up the development of the New Bombay area across the Thane Creek. The BMTC operated what is virtually a point-to-point service with all the advantages of such an operation, like a high rate of vehicle utilisation, better earning per bus, etc., as compared to the other undertakings operating in the region (see Table 2). Of late it had not been doing too well financially and there were proposals for merging it with one of its bigger neighbours; it has stopped functioning now and its services are being maintained jointly by the BEST and MSRTC.

The MSRTC is a regional Corporation set up in 1961 under the Road Transport Corporations Act. It is the world's largest fleet operator. Thanks to elastic revenue structure and a few revisions in the fares, both the BEST and MSRTC have managed to retain their financial viability and also to make some capital investments on the strength of their internal resources unlike several other State Transport Undertakings in the country.

PERORMANCE OF THE TRANSPORT UNDERTAKINGS IN THE BMR

The transport undertakings operating within the BMR give a mixed picture in terms of the standard set of performance indicators as shown in Table 2. In the absence of separate data for the segment of the MSRTC operating in the BMR, the figures for the total Corporation have been taken as the proxy. The comparative analysis attempted in this section would, therefore, be valid only if the efficiency of operation

TABLE 2 SELECT INDICATORS OF PHYSICAL AND FINANCIAL PERFORMANCE OF THE TRANSPORT UNDERTAKINGS IN THE BMR

	BEST				*BMTC*		*MSRTC*			
	1980-81	*1981-82*	*1982-83*	*1983-84*	*1980-81*	*1981-82*	*1980-81*	*1981-82*	*1982-83*	*1983-84*
1. Average fleet	1,975	2,092	2,243	2,344	142	170	9,384	10,298	10,592	10,514
2. Fleet utilisation (%)	91.38	91.52	87.06	88.03	75.32	75.19	85.10	86.30	83.01	85.09
3. Vehicles (on road) utilisation (kms /day)	213.92	210.09	211.06	208.02	392.00	374.00	252.10	253.10	248.04	253.07
4. Revenue per bus (on road) per day (Rs)	774	851	1,061	971	778	934	700	887	1,034	1,126
5. Total cost/bus/day (Rs.)	1,027	1,151	1,265	1,332	887	1,125	849	1,013	1,063	1,146
6. Operating ratio (%)	116.48	120.35	112.07	121.09	105.46	105.84	99.76	92.72	84.10	83.03
7. Tax per effective kms. (paise)	25.32	27.23	32.00	31.02	8.64	15.78	52.22	64.62	73.60	77.05
8. Effective kms /crew/day	92	89	84	85	160	154	147	149	179	150
9. Occupancy ratio	101	96	87	88	67	92	81	NA	70	74
10. Farebox ratio (%)	91.07	90 05	96.06	89.00	97.04	99.03	111.02	101.01	107.07	109 01

NOTES - 1. The figures for the BMTC for the year 1982-83 are not available and consequently the corresponding column has been deleted in this Table as well as in Tables 3, 4 and 5.

2. Farebox ratio is ratio of revenue from farepaying passengers to operating expenditure including interest and depreciation,

of the MSRTC in the region happens to be similar to that in the entire state. The comments on the BMTC relate to the period when it was operating.

It may be noted that the BMTC reports high values of kilometers per crew vehicle utilisation index, etc., than the BEST and MSRTC, as mentioned above. However, when one compares these with the corresponding figures for the other transport *companies* in India (mostly in the State of Tamil Nadu), one has reasons to be concerned regarding the operation of the BMTC. It has been mentioned above that the indices of physical performance come out as high for this company because of very spcial circumstances of operation. Despite this, BMTC ranks below all the regional companies including the Orissa RTC which is experiencing serious problems in its operation. The only other company in the country operating in a metropolitan city is the Pallavan TC in Madras which again has a higher fleet utilisation than the BMTC. It must also be noted that vehicle and fleet utilisation indices, effective kilometers per crew member per day, etc., for BMTC have gone down marginally during the past couple of years. The BEST and MSRTC on the other hand appear to be doing better than an average city or state operation respectively. In a recent study[1] the authors have shown that in physical terms the BEST is doing better than most of the city undertakings. Similarly, the MSRTC secured a composite level of physical efficiency higher than the corresponding group average. However, when one compares the three undertakings operating within the BMR, one may infer that the BMTC has an edge over the others and the reasons for this have been mentioned above.

The MSRTC set up under the Road Transport Corporations Act receives capital contribution from both the central and state governments. In terms of section 23 (i) of the Road Transport Corporations Act, 1950, the state and the Union governments are supposed to contribute in the ratio of 2:1. However, it may be observed that the state's share has been substantially higher than the stipulated figure in the case of the MSRTC (see Table 3). Of the total of Rs. 134 crores of

[1]See A. Kundu and P.V. Venkatakrishnan, "Performance of the Metropolitan Transport in India—Some Issues", *Times Research Foundation*

its capital stock in the year 1983-84, thirty-four per cent have been contributed by the state government, the central share being about fifteen per cent. In addition, assets worth Rs. 62.4 crores (forty seven per cent) have been built over the years from the internal resources. However, a massive deficit of Rs. 87.5 crores in the retained profit has put serious strain on the internal budgeting of the Corporation. Besides, accumulating current liabilities worth twenty-nine per cent of the total capital, the Corporation has mobilised Rs. 53 crores (forty per cent) from institutional sources (Banks including IDBI, etc.) and public deposits in 1983-84.

The BMTC, being registered under the Companies Act, had no access to capital investment by the government. It did not have any internal savings for development expenditure or asset formation. Most of its capital was obtained from the banks as loans on a relatively higher interest rate. The institutional loans comprised sixty-four per cent of the total capital. The capital structure of the BEST undertaking is unique as about seventy per cent of the assets are created through internal sources. In addition, it raises funds through public loans, reimbursement loans from the World Bank, loans from the Municipal Corporation and the BMRDA. The undertaking has a very small amount of current liabilities which constitute only 6.1 per cent of the total assets. The percentage of assets in the form of passenger buses is also very high for BEST (see Table 4).

The cost of operation per bus kilometer works out to be the highest for the BEST and the lowest for the BMTC (see Table 5). The highest personnel cost per kilometer (relative to other inputs) of the BEST is due to its short distance routes, operation of double-decker buses, etc., which requires a larger manpower for certain magnitude of effective kilometers. The high cost of living and better organisation of the workforce in the city is yet another factor resulting in higher pesonnel cost. It is, however, interesting that even the cost of fuel per kilometer in the BEST is higher than those of the MSRTC by about thirty per cent. This can be attributed to the operation of a large fleet of double-deckers and overcrowding in ordinary buses. In view of the fact that on an average, a BEST bus carries a larger number of passengers due to the factors

TABLE 3 CAPITAL AND LIABILITIES OF THE

	BEST				Per cent	
	1980-81	*1981-82*	*1982-83*	*1983-84*	*1981-82*	*1983-84*
(*a*) State Government contribution	—	—	—	—	—	—
(*b*) Central Government contribution	—	—	—	—	—	—
(*c*) Internal						
(*i*) Provisions/ reserves	6,548.30	6,548.30	8,557	5,519	89.8	58.5
(*ii*) Retained profits	—	—	—	—	—	—
(*d*) Debts (long term)	—	—	—	—	—	—
(*i*) Debentures	—	—	—	—	—	—
(*ii*) Interest loans	—	—	—	—	—	—
(*iii*) Public deposits	—	—	—	—	—	—
(*iv*) Others	2,473.61	2,473.61	2,947	3,028	24.1	32.9
(*e*) Current liabilities	396.48	396.48	745	788	6.1	8 6
TOTAL	9,418.39	9,418.39	12,249	9,195	100.0	100.0

NOTES: 1. As the data for the latest year, *viz.*, 1982-83 were not available for the year 1981-82 for all the three units for the purposes

2. The figures for MSRTC for the year 1981-82 obtained from the sequent years are at variance, especially the value of internal considered and consequently appropriate adjustment has been as well.

mentioned above, one may like to compute the cost per passenger kilometer for comparison with other undertakings. Here again BEST figures work out as pretty high as its buses ply in highly congested areas and the speed of the movement and vehicle utilisation happen to be very low. One can, there-

TRANSPORT UNDERTAKINGS IN THE BMR

(*Rupees in lakhs*)

BMTC		*Per cent*	*MSRTC*				*Per cent*	
1980-81	*1981-82*	*1981-82*	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1981-82*	*1983-84*
—	—	—	3,089.44	3,427.44	4,027	4,627	31.0	34.5
—	—	—	1,116.50	1,269.00	1,656	2,006	12.8	15.0
—	—	—	4,000	4,518.50	5,124	6,242	39.4	46.6
—	—	—	—4,361.58	—7,140.64	—8,053	—8,749	—62.0	—65.3
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
239.49	427.14	64.0	2,788.77	3,445.05	4,113	3,435	31.7	25.6
—	—	—	1,203.89	1,443.44	1,699	1,915	13.1	14.3
139.50	162.20	24.3	130.08	—	—	—	—	—
68.28	78.30	11.7	3,473.90	5,964.83	4,418	3,928	34.0	29.3
447.27	667.64	100.0	11,441.59	12,927.62	12,984	13,404	100.0	100.0

for the BMTC, percentages to total capital liabilities have been computed of comparison.

two volumes of *Performance Statistics* (compiled by the CIRT) for the sub-provisions and revenues. For our analysis the later year figure has been made in the value of internal provisions and reserves for the year 1980-81

fore, argue that the inner city operations are, in general, more costly than those in the periphery due to factors inherent in the system and the pattern of the movement. The cost of operation per bus kilometer is the least for the BMTC which is primarily due to its point-to-point operations and relatively

TABLE 4 ASSET STRUCTURE OF THE TRANSPORT UNDERTAKINGS IN THE BMR

(*Rupees in lakhs*)

	BEST			*Per cent*	*BMTC*		*Per cent*	*MSRTC*			*Per cent*
	1981-82	*1982-83*	*1983-84*	*1981-82*	*1980-81*	*1981-82*	*1981-82*	*1981-82*	*1882-83*	*1983-84*	*1981-82*
(*a*) ***Fixed Assets***											
(*i*) Land and building	1,491	1,696	1,945	13.8	44	84	12.6	3,221	3,612	4,025	24.9
(*ii*) Passenger bus	4,766	6,809	3,288	55.6	264	317	47.4	6,150	5,171	5,044	47 6
(*iii*) Other vehicles	93	153	83	1.2	1	1	0.1	68	69	81	0.5
(*iv*) Plant and machinery	15	47	35	0.4	3	8	1.2	149	153	170	1.2
(*v*) Furniture and others	106	152	106	1.2	7	9	1.3	66	77	72	0 5
(*b*) *Current Assets*	2,947	3,392	3,738	27 7	128	249	37.4	3,273	3,902	4,012	25.3
TOTAL	9,418	12,249	9,195	100.0	447	668	100 0	12,927	12,984	13,404	100.0

TABLE 5 COST STRUCTURE OF THE TRANSPORT UNDERTAKINGS IN THE BMR

	BEST						*BMTC*		*MSRTC*						*All-India*	
	1981-82		*1982 83*		*1983-84*		*1981-82*		*1981-82*		*1982-83*		*1983-84*		*1983-84*	
	Paise	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*	*Paise*	*Per cent*
Personnel	199.8	36.6	226.6	37.9	252.7	39.5	91.2	29.9	117.3	29.3	128.1	29.9	140.7	31.2	130.9	32.1
Fuel	99.8	18.3	102.4	17.1	108.3	16.9	72.4	23.7	73.4	18.3	76.2	17.8	83.2	18.4	150.3	36.9
Other material	65.6	12.0	66.0	11.0	63.0	9 8	89.0	29.1	73.1	18.3	75.9	17.7	70.8	15.7	—	—
Depreciation	67.2	12.3	75.1	12.6	75.6	11.8	28.6	9.4	42.9	10.7	37.9	8.8	42.3	9.4	35.6	8.7
Interest	32.6	6 0	37.3	6.2	40 5	6.3	—	—	10.9	2.7	11.5	2.7	13 2	2.9	26.1	6.4
Taxes	27.2	5.0	32.0	5.3	31.2	4.9	15 8	5.2	64.6	78.1	73.6	17.2	77.5	17.2	49.7	12.2
Others	53.3	9.8	58 2	9.7	68.3	10.7	8.4	2 7	18.1	4.5	24.7	5.8	33.9	5.2	15.1	3.7
TOTAL	545.5	100	597.6	100	639.6	100	305.4	100	400.3	100	427.9	100	451.6	100	407.7	100

long distance and smooth movement of its vehicles. The company also enjoys the advantages of a city operation as far as the tax structure is concerned. It is paying an amount of 15.8 paise per bus kilometer as taxes which indeed is very low compared to the corresponding figures of 27.2 paise and 64.6 paise for the BEST and MSRTC respectively in the year 1981-82. It ought to be noted that the city tax rate happens to be only 3.5 per cent of the fare as against the mofussil rate of 17.5 per cent.

Operating ratio, which is the proportion of cost to revenue and consequently a negative indicator of financial efficiency is significantly higher for the BEST than the MSRTC and BMTC. While the revenue earnings per bus in the BEST is almost equal to those of the other two undertakings, the cost works out to be very high. This results in a massive deficit for the BEST which has been increasing over time. The deficits have increased from Rs. 5.2 crores in 1977-78 to Rs. 22.6 crores in 1983-84 (see Table 6). The absolute deficit for the MSRTC is only Rs. 6.2 crores although it is a giant organisation with its fleet strength being four times that of the BEST. The deficit per effective kilometer was the highest in the year 1983-84 for the BEST, *viz.*, 1.43 paise per kilometer, the corresponding deficits for the BMTC and MSRTC being 51 paise per kilometer (for 1981-82) and 8 paise per kilometer respectively.

Table 7 presents the fare structure for different undertakings in the BMR as on April 1, 1984 upto a distance of fifteen kilometers. A critical minimum fare is charged by all undertakings upto certain distances and thereafter it increases in stages, generally at a decreasing rate.

It is evident that the BEST fares are the lowest in the BMR for almost all distances despite the upward revisions in the recent past. However, these are higher than the fares of the DTC, PTC and CSTC operating in the cities of Delhi, Madras and Calcutta, for comparable distances. Of late, the deficits of the BEST in the operating account has been increasing at an alarming rate as mentioned above. During the period of past six years, *viz*, from 1978-79 to 1983-84, the total cost of the BEST increased by 74.9 per cent while the growth rate for the revenue is only 48.7 per cent. It may not be possible

TABLE 6 FINANCIAL PERFORMANCE OF THE TRANSPORT UNDERTAKINGS IN THE BMR

(*Rupees in millions*)

	BEST			*BMTC*			*MSRTC*		
	Revenue	*Expenditure*	*Net profit*	*Revenue*	*Expenditure*	*Net profit*	*Revenue*	*Expenditure*	*Net profit*
1977-78	399	451	—52 (—42)	14	14	8(.4)	1386	1314	72 (14)
1978-79	445	488	—43 (—32)	16	16	*(.3)	1623	1562	61 (10)
1979-80	475	552	—77 (—56)	14	14	*(—25)	1806	1844	—38 (—6)
1980-81	542	670	—128 (—91)	29	35	—6(—37)	2100	2475	—375 (—51)
1981-82	626	789	—163 (—112)	44	53	—9(—51)	2881	3200	—319 (—40)
1982-83	760	906	—145 (—96)	NA	NA	NA	3324	3415	—91 (—11)
1983-84	783	1009	—226 (—143)	NA	NA	NA	3638	3700	—62 (—8)

NOTES: 1. The profit for the BMTC for the years marked* is in fractions.
2. The figures in brackets are net profit in paise per effective kilometer.

TABLE 7 FARE STRUCTURE OF THE TRANSPORT UNDERTAKINGS IN THE BMR AND A FEW OTHER CITIES AS ON APRIL 1, 1984

Distance upto kms.	*Fare in Ordinary Services*		*Express/Limited Services of BEST†*	*DTC (Delhi)*	*Pallavan TC (Madras)*	*CSTC (Calcutta)*
	BEST†	*MSRTC‡*				
1	50	60	50	30	30	40
2	50	60	50	30	30	40
3	50	60	65+5*	30	40	40
4	50	60	65+5	30	40	40
5	50	60	75+5	40	50	40
6	50	60	75+5	40	50	40
7	75+5*	120	95+5	40	60	40
8	75+5	120	95+5	40	60	50
9	95+5	120	145+5	40	70	50
10	95+5	120	145+5	40	70	50
11	95+5	120	145+5	40	75	50
12	95+5	120	145+5	40	75	50
13	120+5	180	145+5	40	80	50
14	120+5	180	145+5	40	80	50
15	145+5	180	145+5	40	85	50

*Nutrition surcharge.

†w.e.f. September 14, 1984.

‡BMTC does not operate but fare structure same as MSRTC—as on April 1, 1984.

for the undertaking to check the cost increases nor would it be feasible to augment the total income substantially through any general revision in the fares, as the elasticity of gross revenue (with respect to fare increases) are known to be rather low. A differential pricing of transport services seems to be an area where one can search for a solution to this problem.

The MSRTC which was earning a net profit after paying all taxes and making allowances for depreciation has gone into the red since 1979-80, the highest deficit being recorded in the year 1980-81 (see Table 6). The recent fare hikes have brought about an increase in the revenue earnings and reduced the deficits, although the financial position of the corporation can hardly be termed as stable. Fares of the MSRTC are quite high compared to most other state corporations although the operating expenses too are on the higher side. The cost per bus per kilometer for the MSRTC is Rs. 4.52 while the All-India figure is Rs. 4.08 only. While some marginal reduction in the cost of operation is possible through better management and improved productivity, the long term solution to this problem must be sought in terms of discriminatory pricing.

The BMTC was also doing fairly well for a few years since its inception. Of late, however, it had got into serious financial difficulties and finally ceased operation. The BMTC is managed by the CIDCO and it was run on commercial lines until recently. Three to four years back, it was decided that the people displaced from their land due to the New Bombay development project would be absorbed in the Company. To make this possible, additional fleet was obtained which created a large number of new jobs. It may be seen in Table 8 that the BMTC was making a net profit until 1978-79, the peak being achieved in the year 1976-77. Subsequently, however, the Company lost its financial viability in the operating account, the deficit increasing from Rs. 31 lakhs in 1979-80 to Rs. 90 lakhs in 1981-82. It may also be noted that the deficits occurred in the very year when the BMTC increased its fleet strength by 53 buses. It may be argued that the absorption of the agricultural workers who have no urban base as drivers and conductors created serious problems of discipline and efficiency in the undertakings.

TABLE 8 PERFORMANCE OF THE BMTC OVER THE YEARS

	1972-73	*1973-74*	*1974 75*	*1975-76*	*1976-77*	*1977-78*	*1978-79*	*1979-80*	*1980-81*	*1981-82*
Fleet	7	17	28	40	77	97	97	114	167	170
Number of routes	1	1	2	3	6	10	12	19	23	22
Revenue (Rupees crores)	0.09	0.23	0.45	0.67	1.10	1.46	1.58	1.91	2.90	4.36
Cost (Rupees crores)	0.08	0 20	0.41	0 64	1.02	1.41	1.53	2.22	3.47	5.26
Profit (Rupees crores)	0.01	0.03	0.04	0 03	0.08	0.05	0.01	— 0.31	—0.57	—0.90

With their induction, the absenteeism in the Company had become rampant and many trips were lost particularly in the evenings, when people working in New Bombay were to be transported back to their homes in Greater Bombay and *vice versa*. The new recruits were sometimes reported to have abandoned the vehicles even half way. There have been occasions when the MSRTC had to rush to rescue the passengers stranded by the BMTC. Earnings in the recent years did not rise as expected while the expenditures had grown significantly. This had rendered the BMTC a sick concern, waiting to be taken over by its neighbouring undertakings. The BMTC, however, presented a unique case where transport operations were being cross-subsidised by the earnings from urban projects, since the deficits suffered by the Company were being made good by the CIDCO, an authority working for urban development.

The BEST has been making losses for all the years in the seventies and eighties, as far as transport operations are concerned. Despite several upward revisions in the fares, the deficits appear to be showing an increasing trend. However, the BEST makes a profit on the electric supply side which has been used to cross-subsidise transport operations (see Table 9). This is a unique case in India of cross-subsidisation to support the transport sector. It may, however, be noted that for three consecutive years, *viz.*, 1979-80, 1980-81 and 1981-82, the undertaking as a whole went into the red making on an average a loss of about Rs. 5 crores annually. Subsequently, the deficits have disappeared and the credit goes

TABLE 9 CROSS-SUBSIDISATION OF TRANSPORT BY ELECTRICITY SUPPLY IN THE BEST

(*Rupees in lakhs*)

Year	*Transport deficit*	*Electricity supply surplus*	*Net*
1978-79	429	721	+292
1979-80	779	475	—304
1980-81	1283	610	—673
1981-82	1626	1032	—594
1982-83	946	1145	+199
1983-84	1072	1122	+ 50

to the transport operations where the deficits have come down substantially following fare increases.

CONCLUSIONS AND RECOMMENDATIONS

The public transport system of Bombay is almost a text-book case of the influence of transport on urban or area development. The installation of the rail corridors efficiently fed by a good bus service enabled rapid suburbanisation, as is seen from the growth rate of 68 per cent in the western suburbs. 76 per cent in the eastern suburbs as against the 7 per cent in the core of the island during 1971-81. The development of the suburbs in Thane and Raigad districts laid the foundations which support the heavy commercial activity of Bombay, making it the commercial capital of India and putting Bombay Port at the top of India's ten major ports.

The same lesson is also brought out forcefully by the slower pace of population growth in the segment of Raigad district, falling in the BMR, *viz.*, 18 per cent, as against the 70 per cent growth rate in the Thane area. The lack of a good East-West corridor as compared to the North-South corridor is responsible for this disparity in growth. Now that a New port of Nhava-Sheva has been located on the mainland, and New Bombay is being developed, the need for an East-West corridor has become greater. Fortunately, this need has been recognised and efforts to strengthen the road and rail connections across the Thane Creek are well under way.

The basis of the road link was laid by the construction of the bridge across the Thane Creek and the starting of the BMTC bus services by CIDCO. It is necessary to strengthen this East-West link by improving and expanding the BMTC. It is, therefore, quite unfortunate that due to some short-sighted employment policies, the BMTC came to grief. Considering the need for a strong *metropolitan* East-West link, the proposal to merge BMTC with MSRTC is not sound. If at all BMTC is to be merged, it should be with BEST so that a strong integrated urban network links Greater Bombay and New Bombay. A better proposition would have been to pull BMTC out of its sad state by injecting sound management

practices and continue to partially subsidise it through CIDCO.

Metropolitan transport in Bombay, as elsewhere, is a support service which assists the development of the area and enables a host of activities to go on at a rapid pace. It is the duty of these other activities enjoying the benefits of urbanisation to support the transport services financially and it is not correct to expect transport undertakings to be financially self-sufficient at this stage of development. At present, the farebox ratio of the BEST is 0.89 (see Table 2). The All-India average is about 1.04. All over the world, metropolitan farebox ratios are around 0.50 and, even allowing for the fact that urban income inequalities are sharper in India than elsewhere, there is a strong case for reducing the farebox ratio. In fact we would argue that the current thinking that the farebox ratios must be 1.00 or more is definitely not appropriate in the context of the Indian economy. In view of the social and economic objectives that the transport sector is expected to fulfil, there seems to be no reason for concern even if the transport undertakings suffer losses for the next decade or so. Acceptance of this principle may lead to an overall reduction in fare and an increase in subsidy. Where is this subsidy to come from? It should be found from two sources—an intra-urban cross-subsidy and a purely urban-based tax revenue. Funding such subsidies from the General Exchequer is not recommended as most of the contributions to such general funds are made not by the persons enjoying the benefits of urbanisation. This would consequently involve unacceptable forms of subsidisation of urban population by the rural masses when the ratio of urban rural per capita income is 3:1. In view of this, both the BEST and the BMTC were on sound lines as neither get subsidies from the General Exchequer but were respectively funded by the Municipal Corporation and a urban development organisation, CIDCO. Bombay, therefore, satisfies the criterion of urban cross-subsidies—the BEST from urban electric supply and the BMTC from urban industrial-cum-area development. Thus, the two undertakings can be held up as good theoretical models for an urban transport undertaking. The other

possible source of funding could be an employer tax as in the case of France.

The question naturally arises—if general fare increases are not advocated, will it not result in large subsidies going to people who do not need or deserve them. This certainly has to be avoided. This can be done by a logical differential fare structure which provides services at different fare levels, with large concessions made available on an income-linked basis. Such concessions could be operated quite easily through the employers working closely with the STUs. Thus, the people in higher income groups could be charged a fare per kilometer even twice the cost of operation while the poorer groups can be charged less than the present fare. Such differential fare structures are essential in Indian metropolitan transport services to satisfy the objectives of economic efficiency, social equity and balanced regional development.

SECTION III

Appendix I

LIST OF THE SEMINAR PARTICIPANTS

1. Hon. Shri Abdul Ghafoor,
   Minister for Works and Housing,
   Government of India, Nirman Bhavan,
   New Delhi.

2. Shri Abdul Ali,
   Planning Member,
   Bhubaneswar Development Authority,
   2nd Floor, Ashoka Market Unit-II, Ashok Nagar,
   Bhubaneswar.

3. Shri Anand Kumar,
   Executive Officer,
   Rohtak Municipality,
   Rohtak (Haryana).

4. Shri M.P. Bidlan,
   Administrator,
   Municipal Council,
   Karnal (Haryana).

5. Shri H.U. Bijlani,
   Chairman (HUDMA),
   Cl/15, Ansari Nagar,
   New Delhi-110029.

6. Shri C.S. Chandrasekhar,
   E-255, East of Kailash,
   New Delhi-110065.

7. Dr. Raja J. Chellaih,
   Member, Planning Commission,
   Government of India, Yojana Bhawan,
   New Delhi.

8. Shri Ramesh Chandra,
Secretary,
Ministry of Works and Housing, Nirman Bhawan,
New Delhi-110011.

9. Shri Deepak Parekh,
Executive Director,
H.D.F.C. Ramon House, Backbay Reclamation,
Bombay.

10. Shri J.C. Gambir,
Director,
Perspective Planning, DDA, Vikas Minar,
New Delhi.

11. Shri S.C. Gupta,
Director (City Planning),
Delhi Development Authority, Vikas Minar,
New Delhi.

12. Ms. Shashi Jain,
Director, U.D.
Ministry of Works and Housing, Nirman Bhawan,
New Delhi.

13. Shri Govind Madhava Jha,
Vice-Chairman,
Darbhanga Regional Development Authority,
Darbhanga-846004 (Bihar).

14. Shri Jamsheed Kanga,
Administrator,
Municipal Corporation of Greater Bombay,
Bombay.

15. Shri Kamal Kishore,
Economic Planner,
Town and Country Planning Organisation,
Government of India, Indraprastha Estate,
New Delhi.

16. Shri Hira Lal,
Secretary,
All India Council of Mayors,
48-B, Municipal Colony, Azadpur,
Delhi-110033.

17. Dr. Vinay D. Lall,
Director,
Society for Development Studies,
3/3, Safdarjang Enclave,
New Delhi-110020.

18. Shri R.S. Mathur,
Secretary,
Housing and Urban Development,
Government of Uttar Pradesh,
Lucknow.

19. Dr. Shyam Nath,
Fellow,
National Institute of Public Finance and Policy,
18/2, Satsang Marg, Special Institutional Area,
New Delhi-110067.

20. Shri R.L. Pardeep,
Joint Secretary,
Ministry of Works and Housing, Nirman Bhawan,
New Delhi-110011.

21. Shri R.S. Pednekar,
Chief Accountant,
Bombay Municipal Corporation,
Fort, Bombay-400 001.

22. Shri Virendra Prakash,
Chief Secretary,
Delhi Administration, Old Secretariat,
Delhi-110006.

23. Shri S.T. Veera Raghavan,
Joint Secretary,
Ministry of Works and Housing, Nirman Bhawan,
New Delhi-110011.

24. Shri P.L.N. Raju,
Economist,
National Institute of Public Finance and Policy,
Special Institutional Area (Near (JNU),
New Delhi.

25. Shri Vijay Ranchan,
Director of Municipalities, Government of Gujarat,
Children's Hospital Building, Rasala Marg, Ellisbridge,
Ahmedabad-480006.

26. Shri K.N. Rao,
Chief Accountant,
Municipal Corporation of Delhi,
Delhi-110006.

27. Shri E.F.N. Ribeiro,
Chief Planner,
Town and Country Planning Organisation,
E-Block, Vikas Bhawan,
New Delhi-110002.

28. Shri S.A. Russel,
Under Secretary,
Ministry of Works and Housing, Government of India,
Nirman Bhawan,
New Delhi.

29. Shri S.D. Sharma,
Special Assistant to the
Union Minister for Works and Housing,
Government of India, Nirman Bhawan,
New Delhi.

30. Shri S.K. Sharma,
Commissioner,
Government of Madhya Pradesh,
8/8, State Emporia Complex, Baba Kharak Singh Marg,
New Delhi-110001.

31. Prof. Sudesh Kumar Sharma,
Professor of Public Administration,
Panjab University,
Chandigarh.

32. Shri P.P. Shrivastav,
Commissioner,
Municipal Corporation of Delhi, Town Hall,
Delhi-110006.

33. Shri A.K. Sinha,
Dy. Secretary,
Urban Development and Housing Department,
Government of Gujarat, Sachivalaya,
Gandhinagar-382010.

34. Shri Surinder Singh,
Executive Officer,
Municipality of Yamunanagar,
Yamunanagar.

35. Shri V.V. Subrahmanyam,
Economist,
Town and Country Planning Organisation,
Vikas Bhavan, Indraprastha Estate,
New Delhi.

36. Dr. G. Thimmaiah,
Director,
Institute for Social and Economic Change,
Bangalore-560072.

37. Shri P.A. Varghese,
Director of Municipal Administration,
Government of Kerala,
Trivandrum.

38. Shri M.K. Venkatachalam,
Financial Adviser,
Housing Development Finance Corporation,
Palika Sadan, R.K. Puram,
New Delhi.

39. Shri P.V. Venkatakrishnan,
Chairman-cum-Managing Director,
Delhi Transport Corporation, Indraprastha Estate,
New Delhi-110002.

40. Shri H.R. Yadav,
Chief (Projects), HUDCO,
HUDCO House, Lodhi Road,
New Delhi.

41.	Dr. P.R. Dubhashi—*Director*	*IIPA Faculty*
42.	Prof. A. Datta	
43.	Prof. G.K. Misra	
44.	Shri D.D. Malhotra	
45.	Shri Raj Nandy	
46.	Shri M.K. Narain	
47.	Shri Rakesh Gupta	
48.	Dr. K.S.R.N. Sarma	*Seminar Coordinators*
49.	Shri G. Jha	